

BANK OF CHILE  
Form 20-F  
June 27, 2008  
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As filed with the Securities and Exchange Commission on June 27, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 20-F**  
**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

Commission file number 001-15266

**BANCO DE CHILE**

(Exact name of Registrant as specified in its charter)

**BANK OF CHILE**

(Translation of Registrant's name into English)

**REPUBLIC OF CHILE**

(Jurisdiction of incorporation or organization)

**Banco de Chile**

**Ahumada 251**

**Santiago, Chile**

**(562) 637-1111**

(Address of principal executive offices)

**Pedro Samhan E.**

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**Banco de Chile**

**Ahumada 251**

**Santiago, Chile**

**Telephone: (562) 653-5150**

**Facsimile: (562) 653-5156**

**(Name, telephone, e-mail and/or facsimile number and address of company contact person)**

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

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

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

**None**

**(Title of Class)**

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

**None**

**(Title of Class)**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: Shares of common stock: 71,996,083,216

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  IFRS  Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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**PRESENTATION OF FINANCIAL INFORMATION**

We prepare our audited consolidated financial statements in Chilean pesos and in accordance with generally accepted accounting principles in Chile, or Chilean GAAP, and the rules of the *Superintendencia de Bancos e Instituciones Financieras*, or the Chilean Superintendency of Banks. Together, these requirements differ in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. References to Chilean GAAP in this annual report are to Chilean GAAP, as supplemented by the applicable rules of the Chilean Superintendency of Banks. See Note 29 to our audited consolidated financial statements contained elsewhere in this annual report for a description of the material differences between Chilean GAAP and U.S. GAAP, as they relate to us and our consolidated subsidiaries, and a reconciliation to U.S. GAAP of net income and shareholders' equity.

Pursuant to Chilean GAAP, unless otherwise indicated, financial data for all full-year periods through December 31, 2007 included in our audited consolidated financial statements and in the other financial information contained elsewhere in this annual report have been restated in constant Chilean pesos of December 31, 2007.

In this annual report, references to \$, U.S.\$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch\$ are to Chilean pesos and references to UF are to *Unidades de Fomento*. The UF is an inflation-indexed Chilean monetary unit of account with a value in Chilean pesos that is linked to and adjusted daily to reflect changes in the Consumer Price Index of the *Instituto Nacional de Estadísticas*, or the Chilean National Institute of Statistics. As of December 31, 2007, one UF equaled U.S.\$39.58 and Ch\$19,622.66. See Note 1 to our audited consolidated financial statements. Percentages and certain dollar and peso amounts contained in this annual report have been rounded for ease of presentation.

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in preparing our audited consolidated financial statements or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Chilean pesos based on the observed exchange rate, as described in Item 3. Key Information Selected Financial Data Exchange Rates, reported by the *Banco Central de Chile*, or the Central Bank, for December 28, 2007 (the latest practicable date, as December 29, 30 and 31, 2007 were banking holidays in Chile). The observed exchange rate on June 23, 2008 was Ch\$493.56 = U.S.\$1.00. The rate reported by the Central Bank is based on the rate for the prior business day in Chile and is the exchange rate specified by the Chilean Superintendency of Banks for use by Chilean banks in the preparation of their financial statements. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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

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

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

**MACRO-ECONOMIC AND MARKET DATA**

In this annual report, all macro-economic data relating to the Chilean economy is based on information published by the Central Bank. All market share and other data relating to the Chilean financial system as well as data on average return on shareholders' equity are based on information published by the Chilean Superintendency of Banks. Information regarding the consolidated risk index of the Chilean financial system as a whole is not available. Prior to January 1, 2004, the Chilean Superintendency of Banks published the unconsolidated risk index for the financial system three times yearly in February, June and October. Since that date, this index is determined on a monthly basis by dividing allowances for loan losses by total loans, based on information provided by the Chilean Superintendency of Banks.

**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not Applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not Applicable.

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The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements appearing elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with Chilean GAAP and the rules of the Chilean Superintendency of Banks, which together differ in certain significant respects from U.S. GAAP. Note 29 to our audited consolidated financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended December 31, 2005, 2006 and 2007 and shareholders' equity at December 31, 2006 and 2007.

|  | 2003  |           | 2004 |           | At or for the year ended December 31,<br>2005 |           | 2006 |           | 2007 |           | 2007<br>(in thousands<br>of U.S.\$) |             |
|--|---|-----------|------|-----------|---|-----------|------|-----------|------|-----------|-------------------------------------|-------------|
|  | (in millions of constant Ch\$ as of December 31, 2007, except share data) |           |      |           |   |           |      |           |      |           |                                     |             |
| <b>CONSOLIDATED INCOME STATEMENT DATA</b>              |   |           |      |           |   |           |      |           |      |           |                                     |             |
| <b>Chilean GAAP:</b>                                   |   |           |      |           |   |           |      |           |      |           |                                     |             |
| Interest revenue                                       | Ch\$  | 609,479   | Ch\$ | 641,577   | Ch\$  | 749,421   | Ch\$ | 835,200   | Ch\$ | 1,170,098 | U.S.\$                              | 2,359,925   |
| Interest expense                                       |   | (238,047) |      | (244,102) |   | (340,111) |      | (399,790) |      | (631,633) |                                     | (1,273,916) |
| Net interest revenue                                   |   | 371,432   |      | 397,475   |   | 409,310   |      | 435,410   |      | 538,465   |                                     | 1,086,009   |
| Provisions for loan losses                             |   | (40,427)  |      | (45,187)  |   | (24,155)  |      | (38,909)  |      | (52,619)  |                                     | (106,125)   |
| Total fees and income from services, net               |   | 111,187   |      | 143,108   |   | 150,550   |      | 143,531   |      | 168,490   |                                     | 339,821     |
| Total other operating income (loss), net               |   | 2,617     |      | (6,884)   |   | 8,522     |      | 23,390    |      | (15,347)  |                                     | (30,952)    |
| Total other income and expenses, net                   |   | (12,532)  |      | (12,064)  |   | (6,830)   |      | 4,086     |      | 1,580     |                                     | 3,185       |
| Total operating expenses                               |   | (259,254) |      | (273,725) |   | (303,211) |      | (322,776) |      | (333,413) |                                     | (672,447)   |
| Loss from price-level restatement                      |   | (4,700)   |      | (8,482)   |   | (12,556)  |      | (9,157)   |      | (37,948)  |                                     | (76,536)    |
| Income before income taxes                             |   | 168,323   |      | 194,241   |   | 221,630   |      | 235,575   |      | 269,208   |                                     | 542,955     |
| Income taxes   |   | (16,303)  |      | (20,851)  |   | (23,456)  |      | (25,879)  |      | (26,920)  |                                     | (54,294)    |
| Net income   |   | 152,020   |      | 173,390   |   | 198,174   |      | 209,696   |      | 242,288   |                                     | 488,661     |
| Earnings per share <sup>(1)</sup>                      |   | 2.23      |      | 2.59      |   | 2.95      |      | 3.05      |      | 3.39      |                                     | 0.007       |
| Dividends per share <sup>(2)</sup>                     |   | 0.91      |      | 2.24      |   | 2.63      |      | 2.42      |      | 2.51      |                                     | 0.005       |
| Weighted average number of shares (in millions)        |   | 68,079.78 |      | 66,932.68 |   | 67,091.30 |      | 68,821.32 |      | 71,494.60 |                                     |             |
| <b>U.S. GAAP<sup>(3)</sup>:</b>                        |   |           |      |           |   |           |      |           |      |           |                                     |             |
| Interest revenue                                       |   | 526,608   |      | 670,128   |   | 772,988   |      | 854,505   |      | 1,185,410 |                                     | 2,390,807   |
| Interest expense                                       |   | (237,716) |      | (247,698) |   | (348,011) |      | (404,480) |      | (665,614) |                                     | (1,342,451) |
| Net interest revenue                                   |   | 288,892   |      | 422,430   |   | 424,977   |      | 450,025   |      | 519,796   |                                     | 1,048,356   |
| Provisions for loan losses                             |   | (31,916)  |      | (35,806)  |   | (25,235)  |      | (55,775)  |      | (50,038)  |                                     | (100,920)   |
| Net income   |   | 151,841   |      | 166,896   |   | 185,131   |      | 185,626   |      | 231,015   |                                     | 465,926     |
| Earnings per share on continuing operations            |   | 2.06      |      | 2.48      |   | 2.85      |      | 2.77      |      | 3.24      |                                     | 0.007       |
| Earnings per share on discontinued operations          |   | 0.19      |      | 0.01      |   | (0.09)    |      | (0.07)    |      | (0.01)    |                                     |             |
| Earnings per share <sup>(1)</sup>                      |   | 2.23      |      | 2.49      |   | 2.76      |      | 2.70      |      | 3.23      |                                     | 0.007       |
| Weighted average number of total shares <sup>(4)</sup> |   | 68,079.78 |      | 66,932.68 |   | 67,091.30 |      | 68,821.32 |      | 71,494.60 |                                     |             |

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|   | At or for the year ended December 31, |                   |                   |                   |                   |                                  |
|---|---------------------------------------|-------------------|-------------------|-------------------|-------------------|----------------------------------|
|   | 2003                                  | 2004              | 2005              | 2006              | 2007              | 2007<br>(in thousands of U.S.\$) |
| (in millions of constant Ch\$ as of December 31, 2007, except share data) |                                       |                   |                   |                   |                   |                                  |
| <b>CONSOLIDATED BALANCE SHEET DATA</b>                                    |                                       |                   |                   |                   |                   |                                  |
| <b>Chilean GAAP:</b>  |                                       |                   |                   |                   |                   |                                  |
| Cash and due from banks   | 997,723                               | 1,011,766         | 722,967           | 1,309,285         | 773,361           | 1,559,762                        |
| Investments purchased under agreements to resell                          | 34,537                                | 29,889            | 51,204            | 57,259            | 69,130            | 139,426                          |
| Financial investments   | 2,177,988                             | 1,789,058         | 1,512,575         | 1,346,196         | 1,247,481         | 2,515,996                        |
| Loans, net of allowances  | 7,075,028                             | 7,651,355         | 8,843,290         | 10,186,205        | 11,652,786        | 23,502,049                       |
| Derivative instruments  |                                       |                   |                   | 54,238            | 81,112            | 163,592                          |
| Other assets  | 485,593                               | 479,715           | 590,572           | 751,364           | 796,640           | 1,606,711                        |
| <b>Total assets</b>   | <b>10,770,869</b>                     | <b>10,961,783</b> | <b>11,720,608</b> | <b>13,704,547</b> | <b>14,620,510</b> | <b>29,487,536</b>                |
| Deposits  | 6,188,142                             | 6,573,191         | 7,252,595         | 8,625,323         | 9,063,071         | 18,278,954                       |
| Other interest bearing liabilities  | 2,993,575                             | 2,683,485         | 2,460,717         | 2,633,229         | 2,834,326         | 5,716,442                        |
| Derivative instruments  | 10,279                                | 50,646            | 65,812            | 75,132            | 120,162           | 242,350                          |
| Other liabilities   | 768,806                               | 888,173           | 1,091,538         | 1,474,470         | 1,551,558         | 3,129,277                        |
| <b>Total liabilities</b>  | <b>9,960,802</b>                      | <b>10,195,495</b> | <b>10,870,662</b> | <b>12,808,154</b> | <b>13,569,117</b> | <b>27,367,023</b>                |
| Shareholders' equity  | Ch\$ 810,067                          | Ch\$ 766,288      | Ch\$ 849,946      | Ch\$ 896,393      | Ch\$ 1,051,393    | U.S.\$ 2,120,513                 |
| <b>U.S. GAAP<sup>(3)</sup>:</b>   |                                       |                   |                   |                   |                   |                                  |
| Financial investments   | 1,899,209                             | 1,681,335         | 1,227,538         | 1,045,058         | 697,897           | 1,407,561                        |
| Loans, net  | 6,680,830                             | 7,145,623         | 8,161,560         | 9,214,247         | 10,488,546        | 21,153,939                       |
| <b>Total assets</b>   | <b>10,721,396</b>                     | <b>10,909,982</b> | <b>11,647,906</b> | <b>13,228,447</b> | <b>13,872,563</b> | <b>27,979,031</b>                |
| <b>Total liabilities</b>  | <b>9,160,303</b>                      | <b>9,405,568</b>  | <b>10,080,112</b> | <b>11,642,775</b> | <b>12,152,942</b> | <b>24,510,797</b>                |
| <b>Total shareholders' equity</b>   | <b>1,561,093</b>                      | <b>1,504,414</b>  | <b>1,567,794</b>  | <b>1,585,672</b>  | <b>1,719,621</b>  | <b>3,468,234</b>                 |

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|  | At or for the year ended December 31, |        |        |        |        |
|--|---------------------------------------|--------|--------|--------|--------|
|  | 2003                                  | 2004   | 2005   | 2006   | 2007   |
| <b>CONSOLIDATED RATIOS</b>   |                                       |        |        |        |        |
| <b>Chilean GAAP:</b>   |                                       |        |        |        |        |
| <i>Profitability and Performance</i>   |                                       |        |        |        |        |
| Net interest margin <sup>(5)</sup>   | 3.90%                                 | 4.09%  | 4.10%  | 3.95%  | 4.42%  |
| Return on average total assets <sup>(6)</sup>                                  | 1.45                                  | 1.59   | 1.75   | 1.68   | 1.78%  |
| Return on average shareholders' equity <sup>(7)</sup>                          | 20.01                                 | 23.56  | 26.66  | 25.00  | 27.42% |
| <i>Capital</i>   |                                       |        |        |        |        |
| Average shareholders' equity as a percentage of average total assets           | 7.22                                  | 6.75   | 6.56   | 6.73   | 6.50   |
| Bank regulatory capital as a percentage of minimum regulatory capital          | 202.71                                | 179.13 | 184.06 | 165.71 | 183.33 |
| Ratio of liabilities to regulatory capital <sup>(8)</sup>                      | 15.14                                 | 17.20  | 16.68  | 18.65  | 16.77  |
| <i>Credit Quality</i>  |                                       |        |        |        |        |
| Substandard loans as a percentage of total loans <sup>(9)</sup>                | 5.16                                  | 6.51   | 4.62   | 3.76   | 3.28   |
| Past due loans as a percentage of total loans                                  | 1.69                                  | 1.23   | 0.87   | 0.64   | 0.52   |
| Allowances for loan losses as a percentage of substandard loans <sup>(9)</sup> | 55.56                                 | 34.30  | 37.26  | 40.06  | 41.60  |
| Allowances for loan losses as a percentage of past due loans                   | 170.09                                | 181.59 | 198.05 | 235.03 | 262.76 |
| Allowances for loan losses as a percentage of total loans                      | 2.87                                  | 2.23   | 1.72   | 1.51   | 1.36   |
| Past due amounts as a percentage of bank regulatory capital                    | 18.67                                 | 16.23  | 12.00  | 9.65   | 7.58   |
| Consolidated risk index <sup>(10)</sup>  | 2.36                                  | 2.23   | 1.72   | 1.51   | 1.36   |
| <i>Operating Ratios</i>  |                                       |        |        |        |        |
| Operating expenses/operating revenue   | 53.43                                 | 51.29  | 53.35  | 53.60  | 48.21  |
| Operating expenses/average total assets  | 2.46                                  | 2.51   | 2.68   | 2.59   | 2.45   |
| <b>U.S. GAAP:</b>  |                                       |        |        |        |        |
| <i>Profitability and Performance</i>   |                                       |        |        |        |        |
| Net interest margin <sup>(11)</sup>  | 3.03                                  | 4.34   | 4.25   | 4.08   | 4.27   |
| Return on average total assets <sup>(12)</sup>                                 | 1.44                                  | 1.53   | 1.64   | 1.49   | 1.70   |

- (1) Earnings per share data have been calculated by dividing net income by the weighted average number of common shares outstanding during the year.
- (2) Dividends per share data are calculated by dividing the amount of the dividend paid by the number of shares outstanding.
- (3) All U.S. GAAP numbers use Article 9 presentation. All U.S. GAAP figures have been calculated taking into account the U.S. GAAP adjustments set forth in Note 29 to our audited consolidated financial statements.
- (4) For 2004, the weighted average of shares outstanding includes the effect of the repurchase of our shares during 2004. For 2005, the weighted average of shares outstanding includes the effect of the sale of 1,701,994,590 shares issued by us in accordance with our share repurchase program. For 2006, the weighted average of shares outstanding includes the effect of the issuance and distribution of 957,781,060 shares as a result of the capitalization of retained earnings. For 2007, the weighted average of shares outstanding includes the effect of the issuance and distribution of 882,459,200 shares as a result of the capitalization of retained earnings and the effect of the issuance and payment of 2,076,059,351 shares in connection with a capital increase.
- (5) Net interest revenue divided by average interest earning assets. The average balances for interest earning assets, including interest and readjustments, have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries.
- (6) Net income (loss) divided by average total assets. The average balances for total assets have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries.

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- (7) Net income (loss) divided by average shareholders' equity. The average balances for shareholders' equity have been calculated on the basis of our daily balances.
- (8) Total liabilities divided by bank regulatory capital.
- (9) See Item 4. Information on the Company - Selected Statistical Information - Analysis of Substandard Loans and Amounts Past Due.
- (10) The guidelines used to calculate our consolidated risk index were amended in 2004. As a result, our consolidated risk index as of December 31, 2004, 2005, 2006 and 2007 are not comparable to the consolidated risk index presented for preceding 2004.
- (11) Net interest revenue under U.S. GAAP divided by average interest earning assets.
- (12) Net income under U.S. GAAP divided by average total assets.

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As a general matter, prior to 1989, Chilean law permitted the purchase and sale of foreign exchange only in those cases explicitly authorized by the Central Bank. The *Ley Organica Constitucional del Banco Central de Chile 18.840*, or the Central Bank Act, liberalized the rules that govern the purchase and sale of foreign currency. The Central Bank Act empowers the Central Bank to determine that certain purchases and sales of foreign currency specified by law must be carried out in the *Mercado Cambiario Formal*, or the Formal Exchange Market. The Formal Exchange Market is formed by the banks and other entities so authorized by the Central Bank. The observed exchange rate for any given day equals the average exchange rate of the transactions conducted in the Formal Exchange Market on the immediately preceding banking day, as certified by the Central Bank. Even though the Central Bank is authorized to carry out its transactions at the rates it sets, it generally uses the spot rate for its transactions. Authorized transactions by other banks are generally carried out at the spot rate.

Purchases and sales of foreign exchange which may be effected outside the Formal Exchange Market can be carried out in the *Mercado Cambiario Informal*, or the Informal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the observed exchange rate. On December 28, 2007 (the latest practicable date as December 29, 30 and 31, 2007 were banking holidays in Chile), the average exchange rate in the Informal Exchange Market was Ch\$497.95 per U.S.\$1.00, or 0.43% higher than the published observed exchange rate of Ch\$495.82 per U.S.\$1.00.

The following table sets forth the annual low, high, average and period-end observed exchange rate for U.S. dollars for each year beginning in 2003, as reported by the Central Bank:

| Year                | Daily Observed Exchange Rate Ch\$ per U.S.\$ <sup>(1)</sup> |                     |                        |                           |
|---------------------|---|---------------------|------------------------|---------------------------|
|                     | Low <sup>(2)</sup>  | High <sup>(2)</sup> | Average <sup>(3)</sup> | Period End <sup>(4)</sup> |
| 2003                | Ch\$ 593.10   | Ch\$ 758.21         | Ch\$ 691.40            | Ch\$ 599.42               |
| 2004                | 559.21  | 649.45              | 609.53                 | 559.83                    |
| 2005                | 509.70  | 592.75              | 559.77                 | 514.21                    |
| 2006                | 511.44  | 549.63              | 530.28                 | 534.43                    |
| 2007                | 493.14  | 548.67              | 522.47                 | 495.82                    |
| December            | 495.49  | 506.79              | 499.28                 | 495.82                    |
| 2008                |   |                     |                        |                           |
| January             | 463.58  | 498.05              | 480.90                 | 465.30                    |
| February            | 458.02  | 476.44              | 467.22                 | 458.02                    |
| March               | 431.22  | 454.94              | 442.94                 | 439.09                    |
| April               | 433.98  | 459.16              | 446.43                 | 459.16                    |
| May                 | 461.49  | 479.40              | 470.10                 | 479.40                    |
| June <sup>(5)</sup> | 479.54  | 500.55              | 488.70                 | 493.56                    |

Source: Central Bank.

- (1) Nominal amounts.
- (2) Exchange rates are the actual low and high, on a day-by-day basis for each period.
- (3) The average of monthly average rates during the year.
- (4) As reported by the Central Bank the first business day of the following period.

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(5) Period from June 1, 2008 through June 23, 2008.

The observed exchange rate on June 23, 2008 was Ch\$493.56 = U.S.\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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**RISK FACTORS**

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

*We are subject to market risks that are presented both in this subsection and in Item 11. Quantitative and Qualitative Disclosures About Market Risk.*

**Risks Relating to our Operations and the Banking Industry**

*The integration and organization of our business could disrupt our operations and adversely affect our financial business.*

On December 27, 2007, our shareholders approved the merger of Citibank Chile with and into Banco de Chile, which became effective on January 1, 2008. As a result of the merger, we are currently undergoing a process of integrating our systems, operations, businesses and employees with those of Citibank Chile. If this integration process is not successfully completed, it may lead to significant disruptions in our operations and, as a result, our business and financial condition may be adversely affected. The aforementioned risks could be compounded if we were to undertake any additional significant acquisitions in the near future.

*The growth of our loan portfolio may expose us to increased loan losses.*

From December 31, 2003 to December 31, 2007, our aggregate loan portfolio, net of interbank loans (on an unconsolidated basis) grew by 93.4% in nominal terms and 66.1% in real terms to Ch\$11,732,799 million. During the same period, our consumer loan portfolio grew by 163.1% in nominal terms and 125.9% in real terms to Ch\$1,257,738 million, each calculated in accordance with the loan classification system of the Chilean Superintendency of Banks. Expansion of our loan portfolio (particularly in the retail market) may expose us to a higher level of loan losses and require us to establish higher levels of allowances for loan losses. For the year ended December 31, 2007, total allowances for loan losses accounted for Ch\$156,949 million, or 1.34%, of total loans.

*Our loan portfolio may not continue to grow at the same or similar rate.*

We cannot assure you that in the future our loan portfolio will continue to grow at historical rates. According to the Chilean Superintendency of Banks, from December 31, 2003 to December 31, 2007, the aggregate amount of loans outstanding in the Chilean banking system (on an unconsolidated basis) grew by 92.9% in nominal terms and 65.7% in real terms to Ch\$63,331,009 million. A reversal of the growth rate of the Chilean economy could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses. See Item 4. Information on the Company Regulation and Supervision and Item 4. Information on the Company Selected Statistical Information.

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

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

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

***Increased competition and industry consolidation may adversely affect our operations.***

The Chilean market for financial services is highly competitive. We compete with other Chilean private sector domestic and foreign banks, with Banco del Estado de Chile, a public sector bank, and with large department stores that make consumer loans to a large portion of the Chilean population. In 2002, two new private sector banks affiliated with Chile's largest department stores began their operations, mainly as consumer and medium-sized corporate niche banks. In 2003, a new niche bank oriented at servicing corporations began its operations, and in 2004, two new retail banks commenced operations. The retail market (comprised of individuals and small- and medium-sized companies) has become the target market of several banks, and competition with respect to these customers is likely to increase. As a result, net interest margins (after credit risk) in these sub-segments are likely to decline. Although we believe that demand for financial products and services from the retail market will continue to grow during the remainder of the decade, we cannot assure you that net interest margins will be maintained at their current levels.

We also face competition from non-bank competitors with respect to some of our credit products, such as credit cards and consumer loans. Non-bank competition from large department stores, private compensation funds and savings and credit associations has become increasingly significant in the consumer lending sector. In addition, we face competition from competitors such as leasing, factoring and automobile finance companies, with respect to credit products, and mutual funds, pension funds and insurance companies, with respect to savings products and mortgage loans. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business has experienced rapid growth, but we cannot assure you that they will continue to be in the future. See Item 4. Information on the Company Business Overview Competition.

The increase in competition within the Chilean banking industry in recent years has led to, among other things, consolidation in the industry. For example, on August 1, 2002, Banco Santiago and Banco Santander-Chile, the then-second and third largest banks in Chile, respectively, merged to create Chile's largest bank. In 2003, Banco del Desarrollo merged with Banco Sudameris; in 2004, Banco Security merged with Dresdner Banque Nationale de Paris; in 2005, Banco de Creditos e Inversiones merged with Banco Conosur; in 2007, Banco Itaú acquired Bank Boston unit in Chile, while Rabobank acquired HNS Bank and Scotiabank acquired Banco del Desarrollo; and on January 1, 2008, we merged with Citibank Chile. We expect the trends of increased competition and consolidation to continue and result in the formation of new large financial groups. Consolidation, which can result in the creation of larger and stronger banks, may adversely affect our financial condition and results of operations by decreasing the net interest margins we are able to generate and by increasing our costs of operations.

***Our exposure to certain segments of the retail market could lead to higher levels of past due loans and subsequent charge-offs.***

Although we historically emphasized banking for the wholesale market and high income individuals, an increasing proportion of our retail market consists of middle-sized and small companies (approximately 7.2% of the value of our total loan portfolio at December 31, 2007, including companies with annual sales of up to Ch\$1,200 million and, to a lesser extent, of lower income individuals (approximately 2.8% of the value of our total loan portfolio at December 31, 2007, including individuals with monthly incomes between Ch\$170,000 and Ch\$380,000).

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Our strategy includes increasing lending and providing other services to attract additional retail customers. These customers are likely to be more severely affected by adverse developments in the Chilean economy than large corporations and high-income individuals. Consequently, in the future we may experience higher levels of past due loans, which could result in higher allowances for loan losses. The levels of past due loans and subsequent write-offs may be materially higher in the future. See Item 4. Information on the Company Business Overview Principal Business Activities.

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

As of December 31, 2007, Sociedad Administradora de la Obligacion Subordinada S.A., or SAOS, our affiliate, holds 39.72% of our shares as a consequence of our 1996 reorganization. The reorganization was partially due to our 1989 repurchase from the Central Bank of certain non-performing loans that we had previously sold to the Central Bank and later exchanged for subordinated debt without a fixed term. Under the terms of a repayment obligation in favor of the Central Bank that SAOS assumed to replace the Central Bank subordinated debt, SAOS may be required to sell some of our shares to the public. See Item 4. Information on the Company History and Development of the Bank History The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt. See Note 29(a) to our audited consolidated financial statements.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile S.A., a holding company that controls us and SAOS, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. As a result of the capital increase agreed upon in the Extraordinary Shareholders Meeting held in May 2007, the share dividend paid in May 2006 and in May 2007, and the merger with Citibank Chile in January 2008, the percentage of our shares held by SAOS further decreased to 35.5%. Dividends received from us are the sole source of SAOS's revenue, which it must apply to repay this indebtedness. However, under SAOS's agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire accumulated deficit amount. As of April 30, 2008, SAOS maintained a surplus with the Central Bank of Ch\$50,269 million, equivalent to 4.35% of our capital and reserves. As of the same date, Ch\$231,253 million would have represented 20% of our capital and reserves. If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth, and to distribute stock dividends among our shareholders, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. The shareholders of SM-Chile will have a right of first refusal with respect to that sale.

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

***Our results of operations are affected by interest rate volatility.***

Our results of operations depend to a great extent on our net interest revenue, which represented 77.9% of our operating revenue in 2007. Changes in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities as well as in the derivative portfolio, leading to a reduction in our net revenue. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors.

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Any volatility in interest rates could have a material adverse effect on our financial condition or results of operations. The average annual short-term interest rate (based on the rate paid by Chilean financial institutions) for 90 to 360 day deposits was 1.89% in 2005, 2.83% in 2006 and 2.20% in 2007. The average long-term interest rate based on the Central Bank's eight-year bonds was 2.55% in 2005, 2.98% in 2006 and 2.9% in 2007. See Item 5. Operating and Financial Review and Prospects Operating Results Overview Inflation and Item 5. Operating and Financial Review and Prospects Operating Results Overview Interest Rates.

***Operational problems or errors can have a material adverse impact on our business, financial condition and results of operations.***

We, like all large financial institutions, are exposed to many operational risks, including the risk of fraud by employees and outsiders, failure to obtain proper internal authorizations, failure to properly document transactions, equipment failures and errors by employees. Although we maintain a system of operational controls, there can be no assurance that operational problems or errors will not occur and that their occurrence will not have a material adverse impact on our business, financial condition and results of operations.

### **Risks Relating to our ADSs**

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

As of June 18, 2008, LQ Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco S.A., and Citigroup Chile S.A. beneficially owned approximately 61.7% of our outstanding voting rights. These principal shareholders are in a position to elect a majority of the members of our board of directors, direct our management and control substantially all matters that are to be decided by a vote of the shareholders, including fundamental corporate transactions.

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

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

While our ADSs have been listed on the New York Stock Exchange, or NYSE, since the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will be sustained. During 2007, a daily average of 16,032 American Depositary Receipts, or ADRs, were traded on the NYSE. Although our shares are traded on the Santiago Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange, the market for our shares in Chile is small and illiquid. At December 31, 2007, approximately 14.1% of our outstanding shares are held by shareholders other than our principal shareholders, including SM-Chile and SAOS.

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

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***You may be unable to exercise preemptive rights.***

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

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

***Developments in international financial markets may adversely affect the market price of the ADSs and shares.***

The market price of the ADSs and shares may be adversely affected by declines in the international financial markets and adverse world economic conditions. The market for Chilean securities is, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including Chile. Developments in other countries may adversely affect the market price of the ADSs and shares.

In particular, since August 2007, there has been significant volatility in worldwide financial markets due to the announcement, by several U.S. banks and financial institutions, of significant write-downs related to exposure to mortgage-backed securities and other financial instruments. Although we, and our subsidiaries, are not directly exposed to the U.S. housing credit market and do not directly hold any assets related to such financial instruments, these write-downs, combined with other factors, have led to a tightening in the credit markets and may lead to a downturn in the U.S. economy, which could impact the Chilean economy as well as adversely affect the market price of the ADSs and shares.

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

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

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

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

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

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**Risks Relating to Chile**

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

The Chilean government's economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could affect the dollar value of our common stock and our ADSs. The peso has been subject to large fluctuations in the past and could continue with this trend in the future. In the period from December 31, 2003 to December 31, 2007, the value of the U.S. dollar relative to the Chilean peso decreased approximately 13.6%, as compared to a 1.8% increase in value in the period from December 31, 2005 to December 31, 2006.

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

Our results of operations may be affected by fluctuations in the exchange rates between the peso and the U.S. dollar despite our policy and Chilean regulations relating to the general avoidance of material exchange rate mismatches. In order to reduce the effect of exchange rate mismatches we enter into forward exchange transactions. As of December 31, 2007, the net position of our foreign currency denominated assets and Chilean peso-denominated assets, which contain repayment terms linked to changes in foreign currency exchange rates, exceeded our foreign currency denominated liabilities and Chilean peso-denominated liabilities, which contain repayment terms linked to changes in foreign currency exchange rates, by Ch\$2,316 million, or 0.3% of our paid-in capital and reserves.

We may decide to change our policy regarding exchange rate mismatches. Regulations that limit such mismatches may also be amended or eliminated. Greater exchange rate mismatches will increase our exposure to the devaluation of the peso, and any such devaluation may impair our capacity to service foreign-currency obligations and may, therefore, materially and adversely affect our financial condition and results of operations. Notwithstanding the existence of general policies and regulations that limit material exchange rate mismatches, the economic policies of the Chilean government and any future fluctuations of the peso against the U.S. dollar could adversely affect our financial condition and results of operations.

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

Although the inflation rate increased to 7.8% in 2007, the level of inflation generally has moderated in recent years, especially in comparison to the periods of higher inflation in the 1980s and 1990s. High levels of inflation in Chile could adversely affect the Chilean economy and, indirectly, the value of our ADSs. The annual rate of inflation (as measured by changes in the Consumer Price Index and as reported by the Chilean National Institute of Statistics) during the last five years ended December 31, 2007 and the first five months of 2008 was:

| Year                  | Inflation<br>(Consumer Price Index) |
|-----------------------|-------------------------------------|
| 2003                  | 1.1%                                |
| 2004                  | 2.4                                 |
| 2005                  | 3.7                                 |
| 2006                  | 2.6                                 |
| 2007                  | 7.8                                 |
| 2008 (through May 31) | 2.8%                                |

Source: Chilean National Institute of Statistics

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

***Our growth and profitability depend on the level of economic activity in Chile.***

A substantial amount of our loans are to borrowers doing business in Chile. Accordingly, the recoverability of these loans, our ability to increase the amount of loans outstanding and our results of operations and financial condition, in general, are dependent to a significant extent on the level of economic activity in Chile. The Chilean economy has been influenced, to varying degrees, by economic conditions in other emerging market countries. We cannot assure you that the Chilean economy will continue to grow in the future or that future developments in or affecting the Chilean economy will not materially and adversely affect our business, financial condition or results of operations. Furthermore, although our operations (with the exception of our trade services subsidiary in Hong Kong and our three representative offices located in Sao Paulo, Mexico City and Beijing) are currently limited to Chile, we may in the future pursue a strategy of expansion into other Latin American countries. The potential success of such strategy will depend in part on political, social and economic developments in such countries.

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

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

There are also important differences between Chilean and U.S. accounting and financial reporting standards. As a result, Chilean financial statements and reported earnings generally differ from those that would be reported based on U.S. accounting and reporting standards. See Note 29 to our audited consolidated financial statements.

As a regulated financial institution, as of December 2007, we are required to submit to the Chilean Superintendency of Banks unaudited unconsolidated balance sheets and income statements, excluding any note disclosure, prepared in accordance with Chilean GAAP on a monthly basis. The Chilean Superintendency of Banks makes this information public within approximately three months of receipt. The Chilean Superintendency of Banks also makes summary financial information available within three weeks of receipt. Such disclosure differs in a number of significant respects from information generally available in the United States with respect to U.S. financial institutions.

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

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

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

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**FORWARD-LOOKING STATEMENTS**

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

projections of operating revenues, net income (loss), net income (loss) per share, capital expenditures, dividends, capital structure or other financial items or ratios;

statements of our plans, objectives or goals, including those related to anticipated trends, competition and regulation;

statements about our future economic performance or that of Chile or other countries in which we operate; and

statements of assumptions underlying such statements.

Words such as believe, anticipate, plan, expect, intend, target, estimate, project, potential, predict, forecast, guideline, and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. These statements may relate to (1) our asset growth and financing plans, (2) trends affecting our financial condition or results of operations and (3) the impact of competition and regulations, but are not limited to such topics. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those described in such forward-looking statements included in this annual report as a result of various factors (including, without limitation, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates and operating and financial risks), many of which are beyond our control. The occurrence of any such factors not currently expected by us would significantly alter the results set forth in these statements.

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

changes in general economic, business, political or other conditions in Chile or changes in general economic or business conditions in Latin America;

changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies;

increased costs;

unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms; and

the factors discussed under Risk Factors.

You should not place undue reliance on forward-looking statements, which speak only as of the date that they were made. This cautionary statement should be considered in connection with any written or oral forward-looking statements that we may issue in the future. We do not undertake any obligation to release publicly any revisions to such forward-looking statements after the filing of this annual report to reflect later events or circumstances or to reflect the occurrence of unanticipated events.



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**Item 4. Information on the Company**

**HISTORY AND DEVELOPMENT OF THE BANK**

**Overview**

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

Our legal name is Banco de Chile. We are organized as a banking corporation under the laws of Chile and are licensed by the Chilean Superintendency of Banks to operate as a commercial bank. Our principal executive offices are located at Ahumada 251, Santiago, Chile. Our telephone number is +56 (2) 637-1111 and our website is [www.bancochile.cl](http://www.bancochile.cl).

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

wholesale market;

retail market;

international banking;

treasury and money market operations; and

operations through subsidiaries.

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

As of December 31, 2007, we offered international banking services directly through our branches in New York and Miami, our trade services subsidiary in Hong Kong, our representative offices in Sao Paulo, Mexico City and Beijing and a worldwide network of correspondent banks. In addition to our commercial banking operations, through our subsidiaries, we offer a variety of non-banking financial services including securities brokerage, mutual fund management, financial advisory services, factoring, insurance brokerage, securitization, collection and sales services.

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As of December 31, 2007, we had:

total assets of Ch\$14,620,510 million (U.S.\$29,488 million);

loans outstanding of Ch\$11,813,926 million (U.S.\$23,827 million);

deposits of Ch\$9,063,071 million (U.S.\$18,279 million); and

shareholders' equity including net income of Ch\$1,051,393 million (U.S.\$2,121 million).

According to information published by the Chilean Superintendency of Banks, as of December 31, 2007, we were the second largest private bank in Chile in terms of total loans (excluding interbank loans) with a market share of 18.5%.

We are headquartered in Santiago, Chile and, as of December 31, 2007, had 11,967 employees and delivered financial products and services through a nationwide network of 294 branches and 1,414 ATMs that form part of a network of 6,184 ATMs operated by Redbanc S.A., a company owned by us and 13 other private sector financial institutions.

**History**

We were established in 1893 as a result of the merger of Banco Nacional de Chile, Banco Agrícola and Banco de Valparaiso, which created the largest privately held bank in Chile. We believe that we remained the largest private bank in Chile until 1996. Beginning in the early 1970s, the Chilean government assumed control of a majority of Chilean banks and all but one of the foreign banks operating at the time closed their branches and offices in Chile. Throughout this era, we remained privately owned, with the Chilean government owning participating shares which it sold to private investors in 1975. We developed a well-recognized name in Chile and expanded our operations in foreign markets where we developed an extensive network of correspondent banks. In the early twentieth century, we established a representative office in London, which we maintained until 1985, when our European operations were moved to Frankfurt. The Frankfurt office was closed in 2000, when our foreign operations were centralized at the New York branch. In 1987 and 1988, we established four subsidiaries to provide the full range of financial products and services permitted by the General Banking Law and in 1999, we established our insurance brokerage and factoring subsidiaries.

***Merger with Banco de A. Edwards***

On December 6, 2001, our shareholders approved the merger with Banco de A. Edwards, which became effective on January 1, 2002. Banco de A. Edwards had been listed on the NYSE since 1995, and in January 2002, we were listed on the NYSE under the symbol BCH. Since 2002, our shares have also been listed on the Latin American Stock Exchange of the Madrid Stock Exchange, or Latibex, and the London Stock Exchange, or LSE. We concluded the merger process at the end of 2002 with the consolidation of a new corporate structure and the integration of our technological platforms.

***Merger with Citibank Chile***

On December 27, 2007 our shareholders approved the merger of Citibank Chile into Banco de Chile, which became effective on January 1, 2008. In addition, we entered into a Global Connectivity Agreement with Citibank N.A. to offer joint global financial services to customers in Chile. Since January 1, 2008, we have been working to integrate Citibank Chile's technological platforms with ours and we are striving to establish a new organizational structure in order to minimize the impact of the merger on our clients and to fully satisfy all legal requirements with respect to the production of accurate consolidated information.

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### ***Neos and Related Projects***

In 2003, we developed the groundwork for Neos, our technological innovation platform that provides information necessary for designing specific value proposals for every market subsegment and that simultaneously improves the quality of our service and increases efficiency. During 2004, we concluded the initial phases of Neos, which consisted of implementing a new management control platform that supports internal administration, a customer relationship management system, which manages client service requirements and global client information, a new core banking products system and a new accounting system.

During 2005, we successfully concluded the implementation of the Enterprise Resource Planning system, which, in its orientation towards self-service applications, provides human resources solutions. We also deployed a Customer Relationship Management, or CRM, service platform in all our retail branches and call centers. It mainly allows for preventive functions, the management of commercial campaigns and the tracking of credit approvals. In addition, the new accounting system was deployed.

During 2006, we expanded the CRM system and related processes to our corporate and private banking businesses, thus covering all of our segments and branch networks, with the exception of Credichile. We also introduced important improvements in this system, adding functionalities mainly related to the opportunity and post-sale modules. As part of the new core banking system, commercial and consumer loans were placed into the new loan module. In addition, we initiated the replacement of the teller system, which will enable faster and more accurate customer service. Also during 2006, a Customer Intelligence solution was implemented to improve customer acquisition, cross-selling, segmentation and retention.

During 2007, we achieved several milestones. We completed the migration of checking accounts, lines of credit and sight accounts into a new module as part of the new core banking system. In addition, the CRM platform and the teller solution were expanded to all of our networks. In addition, we implemented a new anti-money laundering program to increase the quality and efficiency of the operational follow-up and alerts.

During 2008, we expect to be able to finish the migration of saving accounts and time deposits products in addition to completing the remaining stages of the checking account program, including online transactions capabilities. The CRM platform and the teller solution will also be expanded to Credichile and Atlas (consumer division) networks, which are targeted to our lower income customer segments. Also, in the first half of 2008, we expect to implement the new Operational Data Store (ODS) in order to modernize and strengthen our Business Intelligence architecture.

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

During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability requiring that the Central Bank and the Chilean government provide assistance to most Chilean private sector banks, including us. During this period, we experienced significant financial difficulties. In 1985 and 1986, we increased our capital and sold shares representing 88% of our capital to more than 30,000 new shareholders. As a result, no single shareholder held a controlling stake in our company. In 1987, the Chilean Superintendency of Banks returned the control and administration of the bank to our shareholders.

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

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The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch\$1,216,788 million, or U.S.\$2,454 million, required that a certain percentage of our income before provisions for the subordinated debt be applied to repay this obligation. The Central Bank subordinated debt did not have a fixed maturity, and payments were made only to the extent that we earned income before provisions for the subordinated debt. In 1993 we applied 72.9% of our income before provisions for the Central Bank subordinated debt to the repayment of this debt. In 1994 we applied 67.6% and in 1995 we applied 65.8% of our income before provisions for the Central Bank subordinated debt to the repayment of this debt.

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

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

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile, a holding company that beneficially owns SAOS and us, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. As a result of the capital increase agreed upon in the Extraordinary Shareholders Meeting held in May 2007, the share dividend paid in May 2006 and in May 2007, and the merger with Citibank Chile in January 2008, the percentage of our shares held by SAOS further decreased to 35.5%. Dividends received from us are the sole source of SAOS's revenue, which it must apply to repay this indebtedness. However, under SAOS's agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our paid-in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire accumulated deficit amount. As of April 30, 2008, SAOS maintained surplus with the Central Bank of Ch\$50,269 million, equivalent to 4.35% of our paid-in capital and reserves. As of the same date, Ch\$231,253 million would have represented 20% of our paid-in capital and reserves. See [Item 3. Key Information](#) [Risk Factors](#) [Risks Relating to our Operations and the Banking Industry](#). Our affiliate may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends. See Note 29(a) to our audited consolidated financial statements.

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

**Table of Contents****Capital Expenditures**

The following table reflects our capital expenditures in each of the three years ended December 31, 2005, 2006 and 2007:

|  | For the Year Ended December 31,                        |             |             |
|--|--|-------------|-------------|
|  | 2005   | 2006        | 2007        |
|  | (in millions of constant Ch\$ as of December 31, 2007) |             |             |
| Computer equipment                     | Ch\$ 8,999   | Ch\$ 10,105 | Ch\$ 13,061 |
| Furniture, machinery and installations | 8,094  | 11,540      | 10,789      |
| Real estate                            | 2,567  | 1,785       | 1,131       |
| Vehicles                               | 377  | 349         | 822         |
| Subtotal                               | 20,037   | 23,779      | 25,803      |
| Software                               | 7,959  | 11,677      | 7,407       |
| Total                                  | Ch\$ 27,996  | Ch\$ 35,456 | Ch\$ 33,210 |

Our budget for capital expenditures in 2008 is Ch\$60,527 million. Capital expenditures planned for 2008 consist mainly of expenditures for information technology and infrastructure. We expect to open new branches and ATMs, refurbish some existing branches and our main building that serves as our executive offices, and perform other maintenance in the ordinary course of our business.

**BUSINESS OVERVIEW****Business Strategy**

Our long-term strategy is to maintain and enhance our position as a leading bank in Chile by providing a broad range of financial products and services to corporations and individuals nationwide. As part of this strategy, we utilize a multi-brand approach to target diverse market segments and leverage our strongly positioned brand names: Banco de Chile, Banco Edwards, Banchile, and Banco Credichile. Since January 2008, we have also been using the Banco Edwards brand jointly with the Citi brand. The key components of our strategy are described below.

***Expand Retail Customer Base***

Our banking strategy is focused on maintaining and developing long-term relationships with our customers and expanding our customer base maintaining our conservative risk management approach. We seek further expansion, especially in the retail business segment and in segments with strong growth potential, such as lower-income individuals and micro-businesses by enlarging our distribution network, strengthening our electronic channels, emphasizing customer service and providing a broad range of financial products and services. In order to provide our customers with improved and value-added services, we have developed a new customer relationship management system and have provided additional sales and service training to our business account executives.

As a result of the growth of the Chilean economy, recent trade agreements and decreasing unemployment, we expect that our corporate and individual retail customers will require more comprehensive credit and non-credit financial services than in the past. To meet these needs and enlarge our retail customer base, we intend to (1) expand our branch and ATM networks to locations where we have little or no presence, (2) strengthen our sales force, (3) develop programs to increase quality of service in order to build and enhance customer loyalty, (4) continue to improve our response time for customer inquiries, (5) develop diverse products and services tailored to the specific needs of existing and potential customers, (6) strategically cross-sell products and services, such as mutual funds, lease financing, factoring, insurance and securities brokerage services, (7) develop commercial agreements and strategic alliances with leading companies in other industries (such as retail businesses, insurance companies, pension management funds and telecommunications companies) and (8) develop and improve credit scoring techniques to reduce the time the credit process takes for our customers.

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***Expand Fee-Based Services***

In recent years, our margins from traditional lending activities have declined significantly and, as a result, we have increasingly shifted our focus to developing other sources of revenue, such as fee-based products and services. Our consolidated income from fees and other services has continued to be an important source of income during the last three years and was Ch\$143,531 million (U.S.\$ 289.5million) and Ch\$168,490 million (U.S.\$339.8 million) in 2006 and 2007, respectively, representing 23.8% and 24.4% of operating revenues for each year. We seek to continue to grow our fee-based revenues by developing new services and by strategically cross-selling these services to our base of existing retail and wholesale banking customers. For our wholesale banking customers, we intend to actively market new and existing fee-based services such as electronic banking, receivables collection, payroll services, supplier payments, investment advisory services and cash management. For our retail banking customers, we intend to increase revenues from new and existing fee-based services such as electronic banking, ATMs, general checking services, credit cards, mutual funds, securities brokerage and insurance brokerage.

***Maximize Operating Efficiencies***

In 2007, our consolidated operating expenses represented approximately 48.2% of our operating revenue. As the Chilean banking sector continues to grow, we believe that a low-cost structure will become increasingly important to our ability to compete profitably. In addition, we have sought to achieve further efficiency savings and operational synergies with respect to our mergers with Banco de A. Edwards and Citibank Chile.

We have invested heavily in technology during recent years (approximately Ch\$27,996 million in 2005, Ch\$35,456 million in 2006 and Ch\$33,210 million (U.S.\$67 million) in 2007) and plan to continue to focus on technology in the future to achieve further improvements in customer service and operating efficiency. In 2003, we began the first stage of Neos, our technological innovation platform that provides us with customer information that includes demographic information, cross-selling opportunities, customer complaints and credit tracking. Between 2003 and 2007, capital expenditures associated with Neos amounted to approximately Ch\$29,876 million (U.S.\$60.3 million). We estimate that our Neos related capital expenditures will amount to Ch\$4,060 million (U.S.\$8.2 million) in 2008.

***Provide Competitive International Products and Services***

We intend to provide to our primarily Chilean customer base a complete array of international products at competitive prices. Prior to the merger with Citibank Chile, our primary focus in this respect was trade financing of customer related operations, which is one of our traditional areas of international activity. In order to strengthen our relationships with Chilean businesses engaged in international trade, we emphasized the integrated services offered by our New York and Miami branches, in addition to our trade services subsidiary in Hong Kong and our representative offices in Mexico City, Sao Paulo and Beijing. In connection with the Citibank Chile merger, we entered into a Global Connectivity Agreement with Citibank N.A. to offer joint global financial services to customers in Chile. Through this association we hope to eventually integrate our services into the Citigroup Global network in order to give our clients access to Citibank's financial services abroad (such as global cash management, trade services and finance and custody services).

We cannot assure you that we will be able to realize our strategic objectives. For a discussion of certain risks applicable to our operations and to Chile that may affect our ability to meet our objectives, see Item 3. Key Information Risk Factors.

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**Ownership Structure**

The following diagram shows the ownership structure as of June 18, 2008:

**Principal Business Activities**

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

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The following table provides information on the composition of our loan portfolio and our consolidated net income before tax for the year ended December 31, 2007, allocated among our principal business segments:

|                                      | Loans<br>(in millions of constant Ch\$ as of December 31, 2007,<br>except for percentages) |               | Consolidated net<br>income<br>before tax <sup>(1) (2)</sup><br>(in millions of constant Ch\$ as of December 31, 2007,<br>except for percentages) |
|--------------------------------------|--|---------------|--|
| Retail market                        | Ch\$ 4,779,302   | 40.5%         | Ch\$ 168,768   |
| Wholesale market                     | 6,501,427  | 55.0          | 94,704   |
| International banking                | 285,583  | 2.4           | (2,418)  |
| Treasury and money market operations | 28,643   | 0.2           | 24,035   |
| Operations through subsidiaries      | 218,971  | 1.9           | 31,772   |
| Other (adjustments and eliminations) |  |               | (47,653)   |
| <b>Total</b>                         | <b>Ch\$ 11,813,926</b>   | <b>100.0%</b> | <b>Ch\$ 269,208</b>  |

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

(2) The results associated with our gap management (interest rate mismatches) have been allocated among different business segments in accordance with the amount of loans.

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

|                                      | For the Year Ended December 31, 2007                   |                     |                     |
|--------------------------------------|--|---------------------|---------------------|
|                                      | 2005   | 2006                | 2007                |
|                                      | (in millions of constant Ch\$ as of December 31, 2007) |                     |                     |
| Retail market                        | Ch\$ 310,223   | Ch\$ 339,323        | Ch\$ 398,732        |
| Wholesale market                     | 133,274  | 137,010             | 163,804             |
| International banking                | 15,251   | 16,106              | 11,188              |
| Treasury and money market operations | 20,649   | 24,355              | 28,645              |
| Operations through subsidiaries      | 76,840   | 77,159              | 95,997              |
| Other (adjustments and eliminations) | 12,145   | 8,378               | (6,758)             |
| <b>Total</b>                         | <b>Ch\$ 568,382</b>                                    | <b>Ch\$ 602,331</b> | <b>Ch\$ 691,608</b> |

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

|       | For the Year Ended December 31, 2007                   |              |              |
|-------|--|--------------|--------------|
|       | 2005   | 2006         | 2007         |
|       | (in millions of constant Ch\$ as of December 31, 2007) |              |              |
| Chile | Ch\$ 553,496   | Ch\$ 586,367 | Ch\$ 681,525 |

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|                                 |              |              |              |
|---------------------------------|--------------|--------------|--------------|
| Banking operations              | 476,848      | 509,479      | 585,725      |
| Operations through subsidiaries | 76,648       | 76,888       | 95,800       |
| Foreign operations              | 14,886       | 15,964       | 10,083       |
| New York                        | 11,590       | 12,046       | 7,123        |
| Miami                           | 3,105        | 3,646        | 2,763        |
| Operations through subsidiaries | 191          | 272          | 197          |
| Total                           | Ch\$ 568,382 | Ch\$ 602,331 | Ch\$ 691,608 |

**Table of Contents****Retail Market**

Our retail market business segment serves the financial needs of individuals and middle market companies through our branch network comprised by 294 branches.

As of December 31, 2007, loans to our retail market represented 40.5% of our total loans outstanding and our retail market business segment accounted for approximately Ch\$168,768 million of our net income before tax for the year ended December 31, 2007.

The following table sets forth the composition of our retail market business segment's loan portfolio as of December 31, 2007:

|                            | <b>As of December 31, 2007<br/>(in millions of constant<br/>Ch\$ as of December 31, 2007,<br/>except for percentages)</b> |               |
|----------------------------|---|---------------|
| Consumer loans             | Ch\$ 1,251,871  | 26.2%         |
| Commercial loans           | 1,083,598   | 22.7          |
| Mortgage loans             | 421,952   | 8.8           |
| Leasing contracts          | 159,308   | 3.3           |
| Contingent loans           | 46,052  | 1.0           |
| Foreign trade loans        | 26,258  | 0.5           |
| Other loans <sup>(1)</sup> | 1,790,263   | 37.5          |
| <b>Total</b>               | <b>Ch\$ 4,779,302</b>   | <b>100.0%</b> |

(1) Other loans include primarily mortgage loans financed by our general borrowings and factoring loans.

The retail market business segment is served by two divisions: (i) the individuals and middle market division and (ii) the Banco CrediChile division.

**Individuals and Middle Market Division**

The individuals and middle market division is responsible for offering financial services to individuals with incomes of over Ch\$380 thousand monthly (or Ch\$4.6 million annually) and to small and medium-sized companies with annual sales of up to Ch\$1,200 million. The individuals and middle market division manages that portion of our branch network that operates under the brand names Banco Chile and Banco Edwards. We had 197 such branches at December 31, 2007.

The individuals and middle market division has a range of management tools that measure returns, cross-sell products, track performance and the effectiveness of campaigns. Incentive systems have been gradually incorporated into the commercial targets, differentiated by segment, consequently permitting faster response times and a more efficient use of resources. This division also counts on the support of specialized call centers and internet banking services. The strategy followed in the individual and middle market division is mainly focused on subsegmentation and multi-brand positioning, on cross-selling of products and on quality of service.

At December 31, 2007, the individuals and middle market division served more than 460,000 individual customers and over 50,000 companies, resulting in loans outstanding to approximately 413,000 debtors, including approximately 58,200 residential loans, 42,750 commercial loans, 400,000 approved lines of credit, 221,770 other consumer loans and 474,392 credit card accounts. At the same date, we maintained 484,783 checking accounts, 61,230 savings accounts and 32,220 time deposits related to individuals.

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As of December 31, 2007, loans originated by our individuals and middle market division represented 37.7% of our total outstanding loans. The following table sets forth the composition of our portfolio of loans to individuals and middle market companies as of December 31, 2007:

|                            | As of December 31, 2007<br>(in millions of constant<br>Ch\$ as of December 31, 2007,<br>except for percentages) |        |
|----------------------------|---|--------|
| Consumer loans             | Ch\$ 979,918  | 22.0%  |
| Commercial loans           | 1,082,748   | 24.4   |
| Mortgage loans             | 381,191   | 8.6    |
| Leasing contracts          | 159,015   | 3.6    |
| Contingent loans           | 46,052  | 1.0    |
| Foreign trade loans        | 26,258  | 0.6    |
| Other loans <sup>(1)</sup> | 1,772,277   | 39.8   |
| Total                      | Ch\$ 4,447,459  | 100.0% |

(1) Other loans include primarily mortgage loans financed by our general borrowings and factoring loans.

The principal financial services offered to individuals include checking accounts, automatic bill payment, debit cards, credit cards, revolving credit lines, housing loans, consumer loans, life insurance, general insurance (like home and vehicle insurance), savings instruments, mutual funds, stock trading and foreign currency services.

*Installment Loans*

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

At December 31, 2007, we had Ch\$644,544 million in installment loans to individuals, which accounted for 51.5% of the retail market business segment consumer loans. A majority of installment loans are denominated in pesos and are payable monthly.

*Residential Mortgage Loans*

As of December 31, 2007, there were outstanding residential mortgage loans to individuals of Ch\$1,895,879 million, which represented 39.7% of the retail market total loans and 16.0% of our total loan portfolio. A feature of our mortgage loans to individuals is that mortgaged property typically secures all of a mortgagor's credit with us, including credit card and other loans.

Our residential mortgage loans generally have maturities between five and 30 years and are denominated in UF. To reduce our exposure to interest rate fluctuations and inflation with respect to our residential loan portfolio, a portion of these residential loans are currently funded through the issuance of mortgage finance bonds, which are recourse obligations with payment terms that are matched to the residential loans and which bear a real market interest rate plus a fixed spread over the rate of change in the UF. Chilean banking regulations limit the amount of a residential mortgage loan that may be financed with a mortgage finance bond to the lesser of 75% of the purchase price of the property securing the loan or the appraised value of such property. In addition, we generally require that the monthly payments on a residential mortgage loan not exceed 25% of the borrower's household after-tax monthly income. This is mandatory for mortgage loans financed by mortgage bonds in which the assessment value of the property is less than UF3,000.

We have promoted the expansion of *Mutuos Hipotecarios*, a mortgage-lending product, as an alternative form to traditional financing of mortgage loans with mortgage bonds. Whereas our traditional mortgage loans are financed by means of mortgage finance bonds, *Mutuos Hipotecarios* are financed with our general funds, especially long-term subordinated bonds. *Mutuos Hipotecarios* offer the opportunity to finance up to 100% of the lower of the purchase price or the appraised value of the property, as opposed to the 75% that a standard mortgage would allow.



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As of December 31, 2007, we were Chile's second largest private sector bank in terms of amount of mortgage loans, and, based on information prepared by the Chilean Superintendency of Banks, we accounted for approximately 14.7% of the residential mortgage loans in the Chilean banking system and approximately 19.6% of such loans made by private sector banks.

### *Credit Cards*

As of December 31, 2007, we issued both Visa and MasterCard credit cards, and our product portfolio includes both personal and corporate cards. In addition to traditional cards, our credit card portfolio also includes co-branded cards ( Travel Club and Global Pass ), and 40 affinity card groups, most of which are associated with our co-branded programs. Starting January 1, 2008, we also issue Diners Cards as a result of the merger with Citibank Chile.

As of December 31, 2007, we had 468,453 valid credit card accounts, with 608,708 credit cards to individuals. Total charges on our credit cards during 2007 amounted to Ch\$693,933 million, with Ch\$452,815 million corresponding to purchases and service payments in Chile and abroad and Ch\$90,365 million corresponding to cash advances (both within Chile and abroad). These charge volumes represent a 27.6% market share in terms of volume of use of bank credit cards issued in Chile.

As of December 31, 2007, our credit card loans to individuals amounted to Ch\$126,310 million and represented 10.1% of our retail market business segment's consumer loans.

Two Chilean companies that are affiliated with us, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2007, Transbank S.A. had 17 shareholders and Nexus S.A. had seven shareholders, all of which are banks. As of December 31, 2007, our equity ownership in Transbank S.A. was 17.4% and our equity interest in Nexus S.A. was 25.8%.

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

### *Debit Cards*

We have different types of debit cards. Depending on their specifications, these cards can be used for banking transactions on the ATMs that operate on the local network, Redbanc, the Visa International PLUS network, the local network of merchants participating in the local Redcompra debit program or the international network of merchants associated with the Electron program. We have given these debit cards different names (*Chilecard, Chilecard Plus, Chilecard Electron, Chilecard Empresas, Banjoven, Cheque Electronico, Multiedwards, Cuenta Directa and Cuenta Familiar*) based on their specific functions and the relevant brand and target market to which they are oriented. As of December 31, 2007, we had a 27.5% market share of debit card transactions, with approximately 19.3 million transactions performed as of that date.

### *Lines of Credit*

We had approximately 399,390 approved lines of credit to individual customers as of December 31, 2007 and outstanding advances to 251,071 individuals totaling Ch\$207,322 million, or 4.3% of the retail market total loans.

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

### *Deposit Products*

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

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

As of December 31, 2007, we administered 434,495 checking accounts for approximately 420,689 individual customers with an aggregate balance of Ch\$588,713 million. At such date, our checking account balances totaled approximately Ch\$1,961,430 million and represented 14.5% of our total liabilities.

The principal financial services offered to small and medium size companies with annual sales of up to Ch\$1,200 million by the individuals and middle market division include a complete range of products, such as various financing options, support in import and export transactions, collection services, payments and collections, leasing agreements, factoring services, checking account services, investment management, insurance brokerage, currency trading, transfers and payments to and from abroad. As of December 31, 2007, we had approximately 47,287 middle market companies with checking accounts and 28,476 debtors.

### *Commercial Loans*

Our individuals and middle market division's commercial loans, which mainly consist of project financing and working capital loans, are denominated in pesos, UF or U.S. dollars. Commercial loans may have fixed or variable rates of interest and generally mature between one and three months from the date of the loan. As of December 31, 2007, our middle market companies had outstanding commercial loans of Ch\$573,221 million, representing 12.0% of the retail market business segment's total loans and 4.9% of our total loans at that date.

### *Leasing Contracts*

Leasing contracts are financing leases for capital equipment and property. Leasing contracts may have fixed or variable rates of interest and generally mature between one and five years for equipment and between five and twenty years for property. Most of these contracts are denominated in UF. As of December 31, 2007, our middle market companies had outstanding leasing contracts of Ch\$106,977 million, representing 2.2% of the retail market and 0.9% of our total loans at that date.

### *Mortgage Loans*

Mortgage loans granted to middle market companies are non-residential mortgage loans made to finance office, land and other real estate. Mortgage loans are denominated in UF and generally have maturities of between eight and 12 years. As of December 31, 2007, middle market companies had outstanding mortgage loans of approximately Ch\$65,646 million, representing 1.4% of the retail market business segment's total loans 0.6% of our total loans at such date.

**Table of Contents***Banco CrediChile Division, or Banco CrediChile*

The Banco CrediChile division offers loans and other financial services to the lower-middle to middle income portions of the Chilean population, which historically have only been partially served by banking institutions. This bracket includes individuals whose monthly incomes fluctuate between Ch\$170,000 and Ch\$380,000 and small businesses. Banco CrediChile represents a distinct delivery channel for our products and services in this bracket, maintaining a separate brand and network of 97 Banco CrediChile branches. Banco CrediChile was established in 2004 from what was formerly our consumer banking division.

Banco CrediChile offers our customers a range of products, including consumer loans, credit cards, auto loans and residential mortgage loans and a special demand deposit account (see *Bancuenta* below) targeted at low-income customers. As of December 31, 2007, Banco CrediChile had approximately 266,128 customers and total loans outstanding of Ch\$331,843 million, representing 2.8% of our total loan portfolio at that date.

The following table sets forth the composition of our portfolio of loans to Banco CrediChile as of December 31, 2007:

|                | <b>As of December 31, 2007<br/>(in millions of constant<br/>Ch\$ as of December 31, 2007,<br/>except for percentages)</b> |            |
|----------------|---|------------|
| Consumer loans | Ch\$ 271,953  | 81.9%      |
| Mortgage loans | 40,761  | 12.3       |
| Other loans    | 19,129  | 5.8        |
| <br>Total      | <br>Ch\$ 331,843  | <br>100.0% |

Banco CrediChile focuses on developing and marketing innovative, targeted products to satisfy the needs of its customers while introducing them to the banking system. Banco CrediChile complements the services offered in our other business segments, especially our wholesale market, by offering services to employers such as direct deposit capabilities that stimulate the use of our services by employees.

The Chilean Superintendency of Banks requires greater allowances for loan losses for banks with lower credit classifications, such as Banco CrediChile. Banco CrediChile employs a specific credit scoring system, developed by our credit risk division, as well as other criteria to evaluate and monitor credit risk. Banco CrediChile seeks to ensure the quality of our loan portfolio through adherence to our loan origination procedures, particularly the use of our credit scoring system and credit management policies, including the use of credit bureaus and the services of the Chilean Superintendency of Banks. Banco CrediChile uses rigorous procedures for collection of past due loans through Socofin S.A., our specialized collection subsidiary. We believe that we have the necessary procedures and infrastructure in place to manage the risk exposure that Banco CrediChile introduces. These procedures allow us to take advantage of the higher growth and earnings potential of this market while helping to manage the exposure to higher risk. See *Item 3. Key Information Risk Factors Risks Relating to our Operations and the Banking Industry* The growth of our loan portfolio may expose us to increased loan losses and *Item 3. Key Information Risk Factors Risks Relating to our Operations and the Banking Industry* Our loan portfolio may not continue to grow at the same or similar rate.

**Table of Contents***Consumer Lending*

Banco CrediChile provides short- to medium-term consumer loans and credit card services. As of December 31, 2007, Banco CrediChile had approximately 218,070 consumer loans that totaled Ch\$251,455 million outstanding. As of the same date, Banco CrediChile customers had 155,257 valid credit card accounts, with outstanding balances of Ch\$19,305 million.

*Bancuenta*

Banco CrediChile introduced Bancuenta as a basic deposit product that provides consumers flexibility and ease of use, which allows us to tap a section of the consumer market that previously was not part of the banking system. The Bancuenta account is a non-interest bearing demand deposit account without checking privileges targeted at customers who want a secure and comfortable means of managing and accessing their money. The customer may use the ATM card linked to the Bancuenta account (which may include a revolving line of credit) to make deposits or automatic payments to other Banco CrediChile accounts through a network of 6,184 ATMs available through the Redbanc network.

As of December 31, 2007, Banco CrediChile had approximately 627,812 Bancuenta accounts. Bancuenta account holders pay an annual fee, a fee related to the number of withdrawals on the Bancuenta line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a Bancuenta account are withdrawn automatically on a monthly basis from funds available in the account. Bancuenta allows us to offer our wholesale customers the ability to pay their employees by direct deposit of funds into the individual employee's account at Banco CrediChile. We believe this product can lead to stronger long-term relationships with our wholesale customers and with the employees of such customers.

*Wholesale Market*

Our wholesale market business segment serves the needs of corporate customers with annual sales in excess of Ch\$1,200 million. As of December 31, 2007, loans made by this business segment totaled approximately Ch\$6,501,427 million and represented 55.0% of our total loan portfolio. Our wholesale banking business segment accounted for approximately Ch\$94,704 million of our net income before tax for the year ended December 31, 2007.

The following table sets forth the composition of our portfolio of loans to the wholesale market as of December 31, 2007:

|                     | <b>As of December 31, 2007</b>  |                  |               |
|---------------------|---|------------------|---------------|
|                     | <b>(in millions of constant Ch\$ as of December 31, 2007, except for percentages)</b> |                  |               |
| Commercial loans    | Ch\$  | 3,837,428        | 59.0%         |
| Foreign trade loans |   | 772,105          | 11.9          |
| Contingent loans    |   | 1,068,084        | 16.4          |
| Leasing contracts   |   | 492,418          | 7.6           |
| Mortgage loans      |   | 49,557           | 0.8           |
| Other               |   | 281,835          | 4.3           |
| <b>Total</b>        | <b>Ch\$</b>   | <b>6,501,427</b> | <b>100.0%</b> |

As of December 31, 2007, we had approximately 8,175 wholesale debtors. Our wholesale customers are engaged in a wide spectrum of industry sectors. As of December 31, 2007, this business segment's loans were mainly related to:

financial services (approximately 31.9% of all loans made by this business segment);

construction (approximately 14.2% of loans made by this business segment);



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manufacturing (approximately 13.7% of all loans made by this business segment);

trade (approximately 13.2% of all loans made by this business segment);

community, social and personal services (approximately 7.9% of all loans made by this business segment); and

agriculture (approximately 6.2% of all loans made by this business segment).

In line with our strategy of identifying and differentiating market segments to provide value proposals for the specific needs of our customers, we have defined two divisions within the wholesale market based on companies' annual sales, grouping them into (i) large corporations and (ii) large companies.

*Large Corporations Division*

The large corporations division is oriented towards providing services to corporations that sell more than Ch\$33 billion annually. This division's customers include a large proportion of Chile's publicly traded companies, subsidiaries of multinationals and conglomerates, including those in the financial, commercial, manufacturing and industrial and infrastructure sectors, as well as projects, concessions and the real estate sectors.

As of December 31, 2007, we had 1,897 large corporations debtors. Loans to large corporations totaled approximately Ch\$5,008,296 million as of December 31, 2007, representing 42.4% of our total loans at that date.

The following table sets forth the composition of our portfolio of loans by the large corporations division as of December 31, 2007:

|                     | <b>As of December 31, 2007</b>  |                  |               |
|---------------------|---|------------------|---------------|
|                     | <b>(in millions of constant Ch\$ as of December 31, 2007, except for percentages)</b> |                  |               |
| Commercial loans    | Ch\$  | 3,113,054        | 62.2%         |
| Foreign trade loans |   | 513,156          | 10.2          |
| Contingent loans    |   | 891,609          | 17.8          |
| Leasing contracts   |   | 225,926          | 4.5           |
| Mortgage loans      |   | 19,457           | 0.4           |
| Other               |   | 245,094          | 4.9           |
| <b>Total</b>        | <b>Ch\$</b>   | <b>5,008,296</b> | <b>100.0%</b> |

We offer our large corporation customers a wide variety of products that include short and long-term financing, working capital loans, mortgage loans, leasing, long-term syndicated loans and factoring, plus the investment banking services offered by our subsidiary, Banchile Corredores de Bolsa S.A. Our investment banking services include the underwriting of public and private securities offerings. We also offer payment services (payrolls, suppliers, pensions, dividends, etc.), collection services and connection to international funds transfer networks, apart from the traditional deposit products, especially the checking account.

We are party to approximately 1,150 payment service contracts and approximately 240 collection service contracts with large corporations. We believe that cash management and payment service contracts provide a source of low-cost deposits and the opportunity to cross-market our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our large corporate customers, providing centralized collection services for their accounts receivables and other similar payments.

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In order to provide a highly competitive service, our large corporation division has the direct support of our treasury segment, which fulfills our corporate customers' liquidity and short-term loans requirements directly. We have also improved our technological offerings to facilitate connection with customers and permit self-service. Similarly, we offer derivative products, which we believe have become increasingly important, especially peso-dollar and UF-dollar forward contracts and interest rate swaps.

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

*Large Companies Division*

The large companies division provides a broad range of financial products such as electronic banking, leasing, foreign trade and financial consultancy to companies with annual sales of between Ch\$1,200 million and Ch\$33 billion.

As of December 31, 2007, we had 6,278 large companies debtors. Loans to large companies totaled approximately Ch\$1,493,131 million as of December 31, 2007, representing 12.6% of our total loans at that date.

The following table sets forth the composition of our portfolio of loans by the large companies division as of December 31, 2007:

|                     | <b>As of December 31, 2007</b>  |                  |               |
|---------------------|---|------------------|---------------|
|                     | <b>(in millions of constant Ch\$ as of December 31, 2007,<br/>except for percentages)</b> |                  |               |
| Commercial loans    | Ch\$  | 724,374          | 48.5%         |
| Foreign trade loans |   | 258,949          | 17.3          |
| Contingent loans    |   | 176,475          | 11.8          |
| Leasing contracts   |   | 266,492          | 17.9          |
| Mortgage loans      |   | 30,100           | 2.0           |
| Other               |   | 36,741           | 2.5           |
| <b>Total</b>        | <b>Ch\$</b>   | <b>1,493,131</b> | <b>100.0%</b> |

The products offered to these customers are mainly commercial loans, lines of credit, foreign trade and foreign currency transactions, factoring services, leasing, mortgage loans, syndicated loans, mergers and acquisitions and debt restructuring assistance, payments and collections services, checking accounts and related services, corporate credit cards, cash and investment management, forward contracts to hedge against currency fluctuations and insurance broking.

Our leasing segment is part of the large companies division and operates under the name of Banchile Leasing. Our factoring and financial advisory subsidiaries, Banchile Factoring S.A. and Banchile Asesoría Financiera S.A., respectively, provide their services principally through the large companies division. The large companies division has introduced a new service model, centralizing the majority of business relations with its customers, eliminating intermediate reporting levels to provide faster response times. Account officers are organized by geographic region, are strongly sales-oriented and have a particular concern for service quality.

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***International Banking***

Through our international banking business segment, we offer a range of international services, principally import and export financing, letters of credit, guarantees and other forms of credit support, cross border payments, foreign currency exchange and currency swaps.

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

Our international banking business segment does not, however, have credit-granting authority for these purposes. Instead, the segment participates in a team effort with the account officers who establish credit limits, and our international banking trade specialists interact directly with our customers, establishing price structures and ensuring the quality of the services provided.

As of December 31, 2007, we had Ch\$868,747 million in foreign trade loans, representing 7.4% of our total loans as of that date, and Ch\$216,981 million in letters of credit related to foreign trade operations, representing 1.8% of our total loans as of that date.

Our international banking business segment also manages our international network. As of December 31, 2007 this network was made up of branches in New York and Miami, our trade services subsidiary in Hong Kong, three representative offices (located in Mexico City, Sao Paulo and Beijing) plus approximately 900 correspondent banks. We have established credit relations with approximately 200 correspondent banks and account relationships with approximately 45 correspondent banks.

We use our international network in order to:

obtain all our foreign currency funding for either trade or general purposes (short- or medium-term) for our Santiago, Chile head office and our foreign branches;

supply additional savings alternatives to our predominantly Chilean customers;

provide banking services to our corporate customers who operate outside of Chile;

provide treasury and cash management services and lending alternatives to our corporate customers internationally;

diversify our loan and investment portfolio by identifying, mainly through our representative offices, opportunities in dealing with selected customers in pre-approved countries; and

obtain commercial information on foreign companies that do business in Chile and seek business opportunities for our Chilean customers to expand to foreign markets.

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The following table sets forth, as of December 31, 2007, the composition of our portfolio of loans originated through our New York and Miami branches:

|                     | As of December 31, 2007   |                    |
|---------------------|---|--------------------|
|                     | New York Branch<br>(in millions of constant Ch\$ as of December 31, 2007) | Miami Branch       |
| Foreign trade loans | Ch\$  | Ch\$ 12,347        |
| Commercial loans    | 33,789  | 3,373              |
| <b>Total</b>        | <b>Ch\$ 33,789</b>  | <b>Ch\$ 15,720</b> |

The following table sets forth, as of December 31, 2007, the sources of funding for our New York and Miami branches:

|  | As of December 31, 2007  |               |                    |               |
|--|--|---------------|--------------------|---------------|
|  | New York Branch<br>(in millions of constant Ch\$ as of December 31, 2007,<br>except for percentages) |               | Miami Branch       |               |
| Current accounts                           | Ch\$ 179,676   | 47.8%         | Ch\$ 11,663        | 12.1%         |
| Certificates of deposits and time deposits | 153,218  | 40.8          | 83,496             | 87.0          |
| Other demand deposits                      | 38,479   | 10.2          | 819                | 0.9           |
| Foreign borrowings                         | 4,147  | 1.1           |                    |               |
| Other liabilities                          | 502  | 0.1           | 37                 | 0.0           |
| <b>Total</b>                               | <b>Ch\$ 376,022</b>  | <b>100.0%</b> | <b>Ch\$ 96,015</b> | <b>100.0%</b> |

*New York Branch*

Our New York branch was established in 1982 and provided a range of general banking services, including deposit taking, mainly to non-residents of the United States. As of December 31, 2007, the New York branch had total assets of Ch\$386,538 million, including a loan portfolio of Ch\$33,789 million, representing 0.3% of our total loan portfolio. All of the loans of the New York branch were commercial loans, mostly to large corporations in Chile and, to a lesser extent, to Asiatic financial institutions. In 2007, our New York branch recognized a net income of Ch\$537 million.

Investments in bonds and foreign securities were Ch\$310,719 million as of December 31, 2007, most of which consisted of private sector bonds. As of December 31, 2007, the New York branch did not have past due loans. The New York branch's allowances for loan losses totaled Ch\$3 million, which represented 0.01% of the branch's loan portfolio as of December 31, 2007. Although the New York branch manages its assets and liabilities locally, it follows the same credit processes as are followed in Santiago, Chile, and all credit decisions are made by our account officers and credit committees in Santiago, Chile. See Item 8. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings for a description of certain proceedings involving the New York branch.

Funding sources for the New York branch include current account, money market accounts and deposits for less than 30 days (Ch\$266,242 million), time deposits (Ch\$105,131 million) and foreign borrowings (Ch\$4,147 million).

As of December 31, 2007, the New York branch had Ch\$10,516 million in capital (including a net income of Ch\$537 million for the year). In connection with the merger with Citibank Chile and pursuant to a resolution adopted by our senior management, the New York branch was placed in voluntary liquidation on January 3, 2008. In March 2008, the banking license for the New York branch was surrendered to the banking regulator.

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*Miami Branch*

Our Miami branch was opened in 1995 as an agency and in 2004 expanded its banking operations to become a branch. It provided a range of traditional commercial banking services, mainly to non-residents of the United States, including deposit-taking, providing credit to finance foreign trade and making loans to individuals or Chilean companies involved in foreign trade. Additionally, our Miami branch provided correspondent banking services to financial institutions, including working capital loans, letters of credit and bankers' acceptances. As of December 31, 2007, our Miami branch had total assets of Ch\$99,552 million, a loan portfolio of Ch\$15,720 million (representing 0.1% of our total loan portfolio), and an investment portfolio of Ch\$8,127 million. Our Miami branch's loan portfolio as of December 31, 2007 consisted primarily of Ch\$12,347 million of foreign trade loans and Ch\$3,373 million of commercial loans primarily to Chilean companies. The branch's funding sources include demand deposits, money market accounts and deposits for less than 30 days (Ch\$43,047 million), and time deposits (Ch\$52,931 million). In 2007, our Miami branch recognized a net loss of Ch\$1,294 million.

As of December 31, 2007, the Miami branch did not have past due loans. Allowances for loan losses amounted to Ch\$14 million. Although the Miami branch manages its assets and liabilities locally, it follows the same credit processes as are followed in Santiago, Chile, and all credit decisions are made by our account officers and credit committees in Santiago, Chile. See Item 8. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings for a description of certain proceedings involving the Miami branch. In connection with the merger with Citibank Chile and pursuant to a resolution adopted by our senior management, the Miami branch was placed in voluntary liquidation on January 3, 2008. In March 2008, the banking license for the Miami branch was surrendered to the banking regulator.

*Representative offices*

The main activities of our representative offices in Brazil, Mexico and China are to search for business opportunities in the areas of trade finance and private sector financing and to monitor the development and evolving economies of these countries. These offices serve as points of contact for our customers who have business in or operate directly within these countries. In March 2008, following an official request submitted by the Bank, the Mexican Secretary of the Treasury authorized the suspension of the operations of our representative office in Mexico for a period of two years commencing on January 31, 2008 and ending on January 30, 2010.

*Treasury and Money Market Operations*

Our treasury and money market operations business segment provides a wide range of financial services to our customers including currency intermediation, forwards contracts, interest rate swaps, transactions under repurchase agreements and investment products based on bonds, mortgage notes and deposits.

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

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

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Our security portfolio as of December 31, 2007 amounted to Ch\$1,247,481 million, of which 24.3% consisted of securities issued by the Central Bank and the Chilean Government, 29.3% consisted of securities from foreign issuers, 38.1% consisted of securities issued by local financial institutions and 8.4% consisted of securities issued by Chilean corporate issuers. Our investment strategy is designed with a view to supplementing our expected profitability, risks and economic variable projections. Our investment strategy is kept within regulatory limits as well as internal limits defined by our finance and international committee.

**Operations through Subsidiaries**

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

The following table sets forth information with respect to our financial services subsidiaries as of December 31, 2007:

|  | As of or for the year ended December 31, 2007          |                     |                   |
|--|--|---------------------|-------------------|
|  | Assets   | Shareholders Equity | Net Income (loss) |
|  | (in millions of constant Ch\$ as of December 31, 2007) |                     |                   |
| Banchile Corredores de Bolsa S.A.              | Ch\$ 417,616   | Ch\$ 51,138         | Ch\$ 7,957        |
| Banchile Administradora General de Fondos S.A. | 43,256   | 40,643              | 13,880            |
| Banchile Factoring S.A.                        | 219,901  | 29,745              | 1,747             |
| Banchile Corredores de Seguros Ltda            | 5,335  | 4,490               | 2,128             |
| Socofin S.A.                                   | 5,382  | 769                 | 352               |
| Banchile Asesoría Financiera S.A.              | 1,475  | 1,086               | 593               |
| Banchile Trade Services Limited                | 499  | 459                 | 151               |
| Banchile Securitizadora S.A.                   | 6,889  | 413                 | 90                |
| Promarket S.A.                                 | Ch\$ 1,478   | Ch\$ 308            | Ch\$ (340)        |
| Total  | Ch\$ 701,831   | Ch\$ 129,051        | Ch\$ 26,558       |

The following table sets out our ownership interest in our financial services subsidiaries as of December 31, 2007:

|  | Ownership Interest |              |           |
|--|--------------------|--------------|-----------|
|  | Direct (%)         | Indirect (%) | Total (%) |
| Banchile Trade Services Limited                | 100.00             |              | 100.00    |
| Banchile Administradora General de Fondos S.A. | 99.98              | 0.02         | 100.00    |
| Banchile Asesoría Financiera S.A.              | 99.96              |              | 99.96     |
| Banchile Corredores de Seguros Limitada        | 99.75              | 0.25         | 100.00    |
| Banchile Corredores de Bolsa S.A.              | 99.68              | 0.32         | 100.00    |
| Banchile Factoring S.A.                        | 99.75              | 0.25         | 100.00    |
| Banchile Securitizadora S.A.                   | 99.00              | 1.00         | 100.00    |
| Socofin S.A.                                   | 99.00              | 1.00         | 100.00    |
| Promarket S.A.                                 | 99.00              | 1.00         | 100.00    |

Each of these subsidiaries is incorporated in Chile, except for Banchile Trade Services Limited, which is incorporated in Hong Kong.

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*Securities Brokerage Services*

We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores de Bolsa S.A. is registered as a securities broker with the Chilean Superintendency of Securities and Insurance, the regulator of Chilean open stock corporations, and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores de Bolsa S.A. has provided stock brokerage services, fixed income investments and foreign exchange products to individuals and businesses through our branch network. During the year ended December 31, 2007, Banchile Corredores de Bolsa S.A. had an aggregate trading volume on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange of approximately Ch\$8,712,397 million. As of December 31, 2007, Banchile Corredores de Bolsa S.A. had equity of Ch\$51,138 million and, for the year ended December 31, 2007, net income of Ch\$7,957 million, which represented 3.3% of our consolidated net income for such period.

*Mutual and Investment Fund Management*

Since 1980, we have provided mutual fund management services through Banchile Administradora General de Fondos S.A. (formerly Banchile Administradora de Fondos Mutuos S.A.). As of December 31, 2007, according to data prepared by the Chilean Superintendency of Securities and Insurance, Banchile Administradora General de Fondos S.A. was the largest mutual fund manager in Chile, managing approximately 22.9% of all Chilean mutual funds assets. As of December 31, 2007, Banchile Administradora General de Fondos S.A. operated 58 mutual funds and managed Ch\$2,810,165 million in net assets on behalf of 233,759 corporate and individual participants. Banchile Administradora General de Fondos S.A. also operates three investment funds, Banchile Inmobiliario I, II and III, and manages Ch\$11,580 million in net assets on behalf of 946 participants.

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The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos S.A. as of December 31, 2007:

| Name of Fund               | Type of Fund                     | Net Asset Value<br>As of December 31, 2007<br>(in millions of Ch\$) |  |
|----------------------------|----------------------------------|---|--|
|                            |                                  | Ch\$  |  |
| Utilidades                 | Fixed income (short/medium term) | 114,567   |  |
| Liquidez 2000              | Fixed income (short term)        | 645,482   |  |
| Deposito XXI               | Fixed income (medium/long term)  | 177,262   |  |
| Corporativo                | Fixed income (short term)        | 153,597   |  |
| Estrategico                | Fixed income (medium/long term)  | 205,479   |  |
| Corporate Dollar           | Fixed income (short term)        | 186,790   |  |
| Horizonte                  | Fixed income (medium/long term)  | 54,123  |  |
| Patrimonial                | Fixed income (short term)        | 65,518  |  |
| Performance                | Fixed income (short/medium term) | 32,171  |  |
| Banchile Acciones          | Equity                           | 90,688  |  |
| Ahorro                     | Fixed income (medium/long term)  | 29,993  |  |
| Alianza                    | Debt/Equity (medium/long term)   | 25,236  |  |
| Disponible                 | Fixed income (short term)        | 26,155  |  |
| Crecimiento                | Fixed income (short/medium term) | 27,951  |  |
| Inversion                  | Debt/Equity                      | 34,487  |  |
| Inversion 10               | Debt/Equity                      | 1,672   |  |
| Inversion 20               | Debt/Equity                      | 3,473   |  |
| Operacional                | Fixed income (short/medium term) | 14,055  |  |
| Capitalisa Accionario      | Equity                           | 7,429   |  |
| Renta Futura               | Fixed income (short/medium term) | 40,543  |  |
| Euro Money Market Fund     | Fixed income (short term)        | 11,965  |  |
| Emerging Fund              | Debt/Equity                      | 82,947  |  |
| Latin America Fund         | Debt/Equity                      | 170,527   |  |
| Cobertura                  | Fixed income (medium/long term)  | 1,170   |  |
| Dolar Fund                 | Fixed income (medium/long term)  | 1,619   |  |
| U.S. Fund                  | Debt/Equity                      | 776   |  |
| Global                     | Debt/Equity                      | 677   |  |
| Asia Fund                  | Debt/Equity                      | 11,650  |  |
| Europe Fund                | Debt/Equity                      | 12,416  |  |
| International Bond         | Fixed income (medium/long term)  | 217   |  |
| Medical & Health-Care Fund | Debt/Equity                      | 226   |  |
| Inversion Dollar 30        | Debt/Equity                      | 2,484   |  |
| Emerging Dollar            | Debt/Equity                      | 50,987  |  |
| Global Dollar              | Debt/Equity                      | 2,146   |  |
| U.S. Dollar Fund           | Debt/Equity                      | 455   |  |
| Bonsai 106 Garantizado     | Fixed income (medium/long term)  | 19,703  |  |
| Gestion Activa A           | Debt/Equity                      | 10,304  |  |
| Garantizado 112            | Fixed income (medium/long term)  | 6,592   |  |
| Chile Garantizado          | Fixed income (medium/long term)  | 8,927   |  |
| Gestion Activa Acciones    | Debt/Equity                      | 4,402   |  |
| Gestion Activa B           | Debt/Equity                      | 4,012   |  |
| Gestion Activa C           | Debt/Equity                      | 3,789   |  |
| Gestion Activa D           | Debt/Equity                      | 1,185   |  |
| Gestion Activa E           | Debt/Equity                      | 981   |  |
| Bambu Garantizado          | Fixed income (medium/long term)  | 46,307  |  |
| Brics Garantizado          | Fixed income (medium/long term)  | 20,126  |  |
| Inversionista Calificado   | Equity                           | 25,496  |  |
| Fronteras del Este         | Fixed income (medium/long term)  | 4,831   |  |
| Marfil Garantizado         | Fixed income (medium/long term)  | 17,199  |  |
| Verde Amarelo Garantizado  | Fixed income (medium/long term)  | 79,254  |  |

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|                                 |                                 |                |
|---------------------------------|---------------------------------|----------------|
| Consumo Estable                 | Debt/Equity                     | 240            |
| Energía y Materiales            | Debt/Equity                     | 621            |
| Financiero                      | Debt/Equity                     | 222            |
| Gigants Garantizado             | Fixed income (medium/long term) | 36,578         |
| Industria y Consumo Cíclico     | Debt/Equity                     | 2,106          |
| Liquidez Full                   | Fixed income (short term)       | 212,164        |
| Tecnología y telecomunicaciones | Debt/Equity                     | 284            |
| Tigres garantizado              | Fixed income (medium/long term) | 17,909         |
| Total                           |                                 | Ch\$ 2,810,165 |

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As of December 31, 2007, Banchile Administradora General de Fondos S.A. had equity of Ch\$40,643 million and, for the year ended December 31, 2007, net income of Ch\$13,880 million, which represented 5.7% of our consolidated net income for such period.

*Factoring Services*

We provide factoring services to our customers through Banchile Factoring S.A. Through this service, we purchase our customers' outstanding debt portfolios, such as bills, notes, promissory notes or contracts, advancing them the cash flows involved and performing the collection of the related instruments. As of December 31, 2007, Banchile Factoring S.A. had net income of Ch\$1,747 million, with a 5.9% return on shareholders' equity and an estimated 10.6% market share in Chile's factoring industry.

*Financial Advisory Services*

We provide financial advisory and other investment banking services to our customers through Banchile Asesoría Financiera S.A. The services offered by Banchile Asesoría Financiera S.A. are directed primarily to our corporate customers and include advisory services regarding mergers and acquisitions, restructuring, project finance and strategic alliances. As of December 31, 2007, Banchile Asesoría Financiera S.A. had shareholders' equity of Ch\$1,086 million and, for the year ended December 31, 2007, net income of Ch\$593 million.

*Insurance Brokerage*

We provide insurance brokerage services to our customers through Banchile Corredores de Seguros Limitada. In 2000, we began to offer life insurance policies associated with consumer loans and non-credit related insurance to our individual clients and the general public. As of December 31, 2007, Banchile Corredores de Seguros Limitada had shareholders' equity of Ch\$4,490 million and, for the year ended December 31, 2007, net income of Ch\$2,128 million. Banchile Corredores de Seguros Limitada had a 4.3% market share, measured by amount of policies (in Chilean pesos) sold by insurance brokerage companies during 2006, the latest year for which information is available for insurance brokerage companies.

*Securitization Services*

We offer investment products to meet the demands of institutional investors, such as private pension funds and insurance companies, through Banchile Securitizadora S.A. This subsidiary securitizes financial assets, which involves the issuance of a debt instrument with a credit rating that can be traded in the Chilean marketplace, backed by a bundle of revenue-producing assets of the client company. As of December 31, 2007, Banchile Securitizadora S.A. had shareholders' equity of Ch\$413 million and, for the year ended December 31, 2007, net income of Ch\$90 million. Banchile Securitizadora S.A. had a 12.14% market share measured by volume of assets securitized as of December 31, 2007.

*Sales Services*

Promarket S.A. manages the direct sales force that sells and promotes our products and services (such as checking accounts, consumer loans and credit cards), together with those of our subsidiaries, and researches information about potential customers. As of December 31, 2007, Promarket S.A. had shareholders' equity of Ch\$308 million and, for the year ended December 31, 2007, a net loss of Ch\$340 million.

*Collection Services*

We provide judicial and extra-judicial loan collection services on our behalf or on behalf of third parties through Socofin S.A. As of December 31, 2007, Socofin S.A. had equity of Ch\$769 million and, for the year ended December 31, 2007, net income of Ch\$352 million.

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### *Trade Services*

In November 2004, we began offering direct trade services to our customers through Banchile Trade Services Limited, which acts as our trade finance entity in markets such as China, Hong Kong, Taiwan and South Korea. As of December 31, 2007, Banchile Trade Services Limited had equity of Ch\$459 million and, for the year ended December 31, 2007, net income of Ch\$151 million.

### **Distribution Channels and Electronic Banking**

Our distribution network provides integrated financial services and products to our customers through a wide range of channels. This network includes ATMs, branches, on-line banking and phone-banking devices. Our 1,414 ATMs (that form part of Redbanc's 6,184 ATM system) allow our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2007, we had a network of 294 retail branches throughout Chile. The branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, disburse cash, offer the full range of our retail banking products such as consumer loans, automobile financing, credit cards, mortgage loans and checking accounts and provide information to current and potential customers.

We offer electronic banking services to our customers 24 hours a day through our internet website, [www.bancochile.cl](http://www.bancochile.cl), which has homepages that are segmented by market. Our individual homepage offers a broad range of services, including the payment of bills, electronic fund transfers, stop payment and non-charge orders, as well as a wide variety of account inquiries. Our corporate homepage offers services including our office banking service, *Banconexion Web*, which enables our corporate customers to perform all of their banking transactions from their offices. Both homepages offer our customers the sale of third-party products with exclusive benefits. We also have a homepage designed for our investor customers, through which they can perform transactions such as stock trading, time deposit taking and opening savings accounts. Our foreign trade customers can rely on our international business homepage, which enables them to inquire about the status of their foreign trade transactions and perform transactions such as opening letters of credit, recording import collection and hedging on instructions and letters of credit. In 2007, approximately 286,284 individual customers and 42,949 corporate customers performed close to 14.3 million transactions monthly on our website, of which 2.6 million were monetary transactions.

In addition, we provide our customers with access to a 24-hour phone-banking call center that grants them access to account information and allows them to effect fund transfers and certain payments. This service, through which we receive approximately 661,390 calls per month, has enabled us to develop customer loyalty campaigns, sell financial services and products, answer specialized inquiries about our remote services and receive and resolve complaints by customers and non-customers.

In 2001, in association with Banco de Credito e Inversiones, we created a company called Comercio Electronico Artikos Chile S.A. with the purpose of providing Chilean companies with the opportunity to trade their products and services electronically through the internet. We supplement this service with a wide range of financial services and electronic payment means.

### **Involvement with the Transantiago Plan**

Since June 2005, we have been a shareholder in *Administrador Financiero de Transantiago* ( AFT ), the company responsible for the financial management of the overhaul of Santiago's public transit system (the Transantiago Plan ). Other majority shareholders of the company include three major Chilean banks, a financial services company and a technology services company. We own 20% of AFT's shares, whose original capitalization was approximately U.S.\$13.4 million as of June 8, 2005.

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Although the Transantiago Plan has been beset with problems regarding its design, implementation and financing, certain transport agreements executed in March 2008 by and among the Secretary of Transportation and Telecommunications, the AFT and Toll Roads Companies have aimed at improving the Transantiago Plan. The Transantiago Plan is facing operational deficits that may be funded with transitory local or external credits, or by means of permanent fiscal subsidies.

In 2007, as shareholders of AFT, we made extraordinary contributions for a total amount of U.S.\$4,114,000 with the purpose of financing AFT's expenses, which were capitalized as of December 31, 2007. Between January and April 2008, we have made additional funds available to AFT in the amount of U.S.\$358,000, to pay expenses arising from the Transantiago Plan. It is likely that we will continue to incur additional payments, however we do not expect that any such payments will materially affect our business.

## **Competition**

### *Overview*

The Chilean market for banking and other financial services is highly competitive, and we face significant competition in each of our principal segments of operation. The Chilean financial services market consists of a number of distinct sectors. The most important sector, commercial banking, includes 24 privately owned banks and one public sector bank, Banco del Estado. As of December 31, 2007, three banks together accounted for 52.6% of all outstanding loans by Chilean financial institutions, net of interbank loans: Banco Santander-Chile (21.2%), our bank (18.5%) and the public sector bank, Banco del Estado (12.9%).

As a commercial bank offering a range of services to all types of businesses and individual customers, we face a variety of competitors, ranging from other large, privately owned commercial banks to more specialized entities like niche banks. We consider the principal commercial banks in Chile to be our primary competitors, namely, Banco Santander-Chile, Banco de Credito e Inversiones, Banco Bilbao Vizcaya Argentaria Chile, or BBVA, and Corpbanca. Nevertheless, we face competition to a lesser extent from Banco del Estado, which has a larger distribution network and larger customer base than we do. Banco del Estado, which operates under the same regulatory regime as Chilean private sector banks, was the third largest bank in Chile as of December 31, 2007, with outstanding loans, net of interbank loans, of Ch\$8,187,822 million, representing a 12.9% market share, according to data published by the Chilean Superintendency of Banks.

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

In the retail market, we compete with other private sector Chilean banks, as well with Banco del Estado. Among private banks, we consider our strongest competitors in this market to be Banco Santander-Chile, Banco de Credito e Inversiones and BBVA, as each of these banks has developed business strategies that focus on both middle market companies and lower-middle to middle income brackets of the Chilean population. In addition, with respect to high-income individuals, as of December 2007, we considered our strongest competitors in this market to be Banco Santander-Chile and Citibank, N.A.

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

We expect the trend of increased competition and consolidation to continue, particularly in connection with the formation of new large financial groups and the creation of new niche banks. In this regard, in mid-1996, Banco Santander of Spain took control of Banco Osorno and merged it into its Chilean operations, changing its name to Banco Santander-Chile. In addition, Banco O'Higgins and Banco de Santiago merged in January 1997, forming Banco Santiago. In 1999, Banco Santander of Spain took control of Banco Santiago. In August 2002, Banco Santiago and Banco Santander Chile, then the second and fourth largest banks in Chile, respectively, merged and became Chile's largest bank. In 2003, Banco del Desarrollo merged with Banco Sudameris, and in 2004, Dresdner Banque Nationale de Paris merged with Banco Security. In 2005, Banco de Credito e Inversiones merged with Banco Conosur. In 2007, Banco Itaú acquired Bank Boston unit in Chile, while Rabobank acquired HNS Bank. In addition, Scotiabank acquired Banco del Desarrollo. In the first quarter of 2008, we merged with Citibank Chile. Although we believe that we are currently large enough to compete effectively in our target markets, any further consolidation in the Chilean financial services industry may adversely affect our competitive position.

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

Non-bank competition from large department stores has become increasingly significant in the consumer-lending sector. Indeed, three new consumer-oriented banks, affiliated with Chile's largest department stores, have been established during recent years. Although these new banks had a market share of 1.5% as of December 31, 2007, according to the Chilean Superintendency of Banks, the opening of these banks is likely to make consumer banking more competitive. The growth rate of non-bank competition including mainly department stores, private compensation funds, savings and credit cooperatives accounts and insurance companies for an estimated exceeded the growth of bank competition during 2007.

The following table provides certain statistical information on the Chilean financial system as of December 31, 2007:

|                             | As of December 31, 2007  |               |                        |               |                        |               |                       |                       |
|-----------------------------|--|---------------|------------------------|---------------|------------------------|---------------|-----------------------|-----------------------|
|                             | Assets   |               | Loans <sup>(1)</sup>   |               | Deposits               |               | Shareholders          | Equity <sup>(2)</sup> |
|                             | Amount   | Share         | Amount                 | Share         | Amount                 | Share         | Amount                | Share                 |
|                             | (in millions of constant Ch\$ as of December 31, 2007, except percentages) |               |                        |               |                        |               |                       |                       |
| Private banks               | Ch\$ 73,235,473  | 84.9%         | Ch\$ 55,143,186        | 87.1%         | Ch\$ 42,204,553        | 84.6%         | Ch\$ 6,357,252        | 91.6%                 |
| Banco del Estado            | 13,021,013   | 15.1          | 8,187,822              | 12.9          | 7,663,714              | 15.4          | 585,822               | 8.4                   |
| <b>Total banking system</b> | <b>Ch\$ 86,256,486</b>   | <b>100.0%</b> | <b>Ch\$ 63,331,008</b> | <b>100.0%</b> | <b>Ch\$ 49,868,267</b> | <b>100.0%</b> | <b>Ch\$ 6,943,074</b> | <b>100.0%</b>         |

Source: Chilean Superintendency of Banks

(1) Net of interbank loans.

(2) Shareholders' equity includes net income for purposes of this table.

**Table of Contents****Loans**

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

|   | <b>Bank Loans<sup>(1)</sup></b> |              |              |              |              |
|---|---------------------------------|--------------|--------------|--------------|--------------|
|   | <b>As of December 31,</b>       |              |              |              |              |
|   | <b>2003</b>                     | <b>2004</b>  | <b>2005</b>  | <b>2006</b>  | <b>2007</b>  |
| Banco Santander-Chile                         | 22.6%                           | 22.7%        | 22.5%        | 22.2%        | 21.2%        |
| Banco de Chile                                | 18.5                            | 17.8         | 18.2         | 18.1         | 18.5         |
| Banco de Credito e Inversiones <sup>(2)</sup> | 11.2                            | 11.8         | 12.5         | 12.5         | 12.4         |
| Conosur                                       | 0.5                             | 0.4          |              |              |              |
| BBVA Bilbao Vizcaya                           | 7.3                             | 7.8          | 8.1          | 8.2          | 8.4          |
| Banco Corpbanca                               | 6.4                             | 6.5          | 6.4          | 6.3          | 6.8          |
| <b>Total market share</b>                     | <b>66.5%</b>                    | <b>67.0%</b> | <b>67.7%</b> | <b>67.3%</b> | <b>67.3%</b> |

Source: Chilean Superintendency of Banks

(1) For ease of comparison, interbank loans have been eliminated.

(2) Banco de Credito e Inversiones merged with Conosur in 2005.

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*Credit Quality*

As of December 31, 2007, according to information published by the Chilean Superintendency of Banks, we had an unconsolidated ratio of allowances to total loans of 1.34%, ratio below the 1.58% posted by all banks in Chile as a whole. Since 2003, our allowances to total loan ratio has been decreasing as economic conditions and our collection procedures have improved. The following graph illustrates the five-year history of our unconsolidated allowances to total loan portfolio ratio as compared to the Chilean financial system's ratio as of December 31 for each of the years indicated.

Source: Chilean Superintendency of Banks

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The following table sets forth the unconsolidated ratio of allowances to total loans of the largest private sector banks and that of the financial system as a whole (including such banks) as of December 31 in each of the last five years:

|   | <b>Allowances to Total Loans</b> |             |             |             |             |
|---|----------------------------------|-------------|-------------|-------------|-------------|
|   | <b>As of December 31,</b>        |             |             |             |             |
|   | <b>2003</b>                      | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> |
| Banco de Chile                                | 2.89%                            | 2.23%       | 1.70%       | 1.48%       | 1.34%       |
| Banco de Credito e Inversiones <sup>(1)</sup> | 1.93                             | 1.70        | 1.54        | 1.27        | 1.32        |
| Conosur                                       | 8.21                             | 7.17        |             |             |             |
| BBVA Bilbao Vizcaya                           | 1.91                             | 2.04        | 1.35        | 1.14        | 0.99        |
| Banco Santander Chile                         | 2.18                             | 1.96        | 1.42        | 1.46        | 1.71        |
| Banco Corpbanca                               | 2.11                             | 1.70        | 1.56        | 1.40        | 1.27        |
| Financial system                              | 2.31%                            | 1.99%       | 1.61%       | 1.48%       | 1.58%       |

Source: Chilean Superintendency of Banks

(1) Banco de Credito e Inversiones merged with Conosur in 2005.

As of December 31, 2007, according to information published by the Chilean Superintendency of Banks, we had an unconsolidated ratio of past due loans to total loans of 0.52%. The following table sets forth the ratio of past due loans to total loans for the four largest private sector banks as of December 31 in each of the last three years:

|                                | <b>Past Due Loans to Total Loans</b> |             |             |
|--------------------------------|--------------------------------------|-------------|-------------|
|                                | <b>As of December 31,</b>            |             |             |
|                                | <b>2005</b>                          | <b>2006</b> | <b>2007</b> |
| BBVA Bilbao Vizcaya            | 1.13%                                | 0.93%       | 0.91%       |
| Banco Santander Chile          | 1.05                                 | 0.79        | 0.87        |
| Banco de Credito e Inversiones | 0.72                                 | 0.84        | 0.68        |
| Banco de Chile                 | 0.88                                 | 0.65        | 0.52        |
| Banco Corpbanca                | 0.88%                                | 0.57%       | 0.54%       |

Source: Chilean Superintendency of Banks

**Table of Contents****Deposits**

We had deposits of Ch\$8,492,376 million as of December 31, 2007 on an unconsolidated basis. In unconsolidated terms, our 17.0% of the market share for deposits, including borrowings from domestic financial institutions, placed us in second place among private sector banks. The following table sets forth the market shares in terms of deposits for the private sector banks with the largest market share as of December 31 in each of the last three years:

|                                | <b>Deposits</b>           |             |             |
|--------------------------------|---------------------------|-------------|-------------|
|                                | <b>As of December 31,</b> |             |             |
|                                | <b>2005</b>               | <b>2006</b> | <b>2007</b> |
| Banco de Chile                 | 16.4%                     | 17.6%       | 17.0%       |
| Banco Santander Chile          | 21.5                      | 22.0        | 21.3        |
| Banco de Credito e Inversiones | 12.0                      | 12.6        | 12.3        |
| BBVA Bilbao Vizcaya            | 8.0                       | 8.1         | 8.1         |
| Banco Corpbanca                | 5.2                       | 4.6         | 5.5         |
| Total market share             | 63.1%                     | 64.9%       | 64.2%       |

Source: Chilean Superintendency of Banks

**Shareholders Equity**

With Ch\$809,105 million in shareholders' equity (not including net income), according to information published by the Chilean Superintendency of Banks, as of December 31, 2007, we were the second largest private sector commercial bank in Chile in terms of shareholders' equity.

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

|                                | <b>Shareholders' Equity</b>                                   |                |                |
|--------------------------------|---|----------------|----------------|
|                                | <b>As of December 31,</b>                                     |                |                |
|                                | <b>2005</b>   | <b>2006</b>    | <b>2007</b>    |
|                                | <b>(in millions of constant Ch\$ as of December 31, 2007)</b> |                |                |
| Banco Santander Chile          | Ch\$ 923,432  | Ch\$ 1,030,779 | Ch\$ 1,129,395 |
| Banco de Chile                 | 651,772   | 686,697        | 809,105        |
| Banco de Credito e Inversiones | 433,347   | 502,037        | 568,559        |
| Banco Corpbanca                | 389,159   | 423,312        | 433,625        |
| BBVA Bilbao Vizcaya            | Ch\$ 284,117  | Ch\$ 286,656   | Ch\$ 334,913   |

Source: Chilean Superintendency of Banks

**Table of Contents****Return on Average Shareholders' Equity**

Our return on average shareholders' equity, including net income for the year, was 27.4% for the year ended December 31, 2007, according to information published by the Chilean Superintendency of Banks. The following table sets forth our return on average shareholders' equity and the returns of our principal competitors and the Chilean financial system, in each case as of December 31 in each of the last five years:

|   | Return on Average Shareholders' Equity |       |       |       |       |
|---|--|-------|-------|-------|-------|
|   | Year Ended December 31,                |       |       |       |       |
|   | 2003                                   | 2004  | 2005  | 2006  | 2007  |
| Banco de Chile                                | 20.0%                                  | 23.6% | 26.7% | 25.0% | 27.4% |
| Banco Santander-Chile                         | 21.6                                   | 20.4  | 23.7  | 25.2  | 23.9  |
| Banco de Credito e Inversiones <sup>(1)</sup> | 22.1                                   | 22.8  | 23.4  | 22.6  | 21.8  |
| Banco Corpbanca                               | 15.9                                   | 14.6  | 13.8  | 9.5   | 11.6  |
| BBVA Bilbao Vizcaya                           | 10.5                                   | 5.3   | 10.7  | 10.0  | 9.8   |
| Conosur                                       | 25.1                                   | 35.9  |       |       |       |
| Financial system average                      | 15.0%                                  | 15.3% | 16.4% | 16.8% | 16.5% |

Source: Chilean Superintendency of Banks

(1) Banco de Credito e Inversiones merged with Conosur in 2005.

**Efficiency**

For the year ended December 31, 2007, our efficiency ratio (operating expenses as a percentage of our operating revenues) was 45.8% on an unconsolidated basis.

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

|                                | Efficiency Ratio <sup>(1)</sup> |       |       |
|--------------------------------|---------------------------------|-------|-------|
|                                | As of December 31,              |       |       |
|                                | 2005                            | 2006  | 2007  |
| BBVA Bilbao Vizcaya            | 67.9%                           | 66.6% | 62.6% |
| Banco de Credito e Inversiones | 52.7                            | 53.7  | 51.1  |
| Banco de Chile                 | 50.4                            | 51.1  | 45.8  |
| Banco Santander-Chile          | 44.0                            | 40.6  | 37.9  |
| Banco Corpbanca                | 40.9%                           | 50.1% | 42.4% |

Source: Chilean Superintendency of Banks

(1) Calculated by dividing operating expense by operating revenue.

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**REGULATION AND SUPERVISION**

**General**

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

The modern Chilean banking system dates back to 1925 and has been characterized by periods of substantial regulation and state intervention, as well as periods of deregulation. The most recent period of deregulation commenced in 1975 and culminated in the adoption of a series of amendments to the Chilean General Banking Law. In 2004, amendments to the General Banking Law granted additional powers to banks, including general underwriting powers for new issues of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory, mutual fund services, administration of investment funds, factoring, securitization products and financial leasing services. Prior to 2006, banks had the option of distributing less than 30% of their earnings as dividends in any given year, subject to approval of the holders of at least two-thirds of the bank's common stock. In 2006, however, the General Banking Law was amended to eliminate this option.

Following the Chilean banking crisis of 1982 and 1983, the Chilean Superintendency of Banks assumed control of banks representing approximately 51% of the total loans in the banking system. As part of the assistance that the Chilean government provided to Chilean banks, the Central Bank permitted banks to sell to it a certain portion of their problem loan portfolios at the book value of the loan portfolios. Each bank then repurchased such loans at their economic value (which, in most cases, was substantially lower than the book value at which the Central Bank had acquired the loans), with the difference to be repaid to the Central Bank out of future income. Pursuant to Law No. 18,818, which was passed in 1989, this difference was converted into subordinated debt.

**The Central Bank**

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

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

**The Chilean Superintendency of Banks**

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

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

Any person wishing to acquire, directly or indirectly, 10.0% or more of the share capital of a bank must obtain the prior approval of the Chilean Superintendency of Banks. Without such approval, the holder will not have the right to vote such shares. The Chilean Superintendency of Banks may only refuse to grant its approval based on specific grounds set forth in the Chilean General Banking Law.

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

the merger of two or more banks;

the acquisition of all or a substantial portion of a bank's assets and liabilities by another bank;

the control by the same person, or controlling group, of two or more banks; or

a substantial increase in the share ownership of a bank by a controlling shareholder of that bank.

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

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

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

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

If the acquiring bank or resulting group would own a market share in loans determined by the Chilean Superintendency of Banks to be more than 15% but less than 20%, the authorization will be conditioned on the bank or banks maintaining an effective equity not lower than 10% of their risk-weighted assets for a period set by the Chilean Superintendency of Banks, which may not be less than one year. The calculation of risk-weighted assets is based on a five category risk classification system applied to a bank's assets that is based on the Basel Committee recommendations.

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

banks must disclose to the Chilean Superintendency of Banks the identity of any person owning, directly or indirectly, 5.0% or more of such bank's shares;

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

the depositary must disclose to the bank the identity of beneficial owners of ADSs which the depositary has registered, and the bank, in turn, must disclose to the Chilean Superintendency of Banks the identity of the beneficial owners of the ADSs representing 5.0% or more of such bank's shares; and

bank shareholders who individually hold 10.0% or more of a bank's capital stock and who are controlling shareholders must periodically inform the Chilean Superintendency of Banks of their financial condition.

### **Limitations on Types of Activities**

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

In March 2002, the Central Bank authorized banks to pay interest on checking accounts and the Chilean Superintendency of Banks published guidelines permitting banks to offer and charge fees for the use of a checking account product that pays interest. Under these guidelines, these accounts may be subject to a minimum balance and different interest rates depending on average balances held in the account. The Central Bank has imposed additional caps to the interest rate that can be charged by banks with a solvency score of less than A.

In June 2007, the Chilean Government passed Law No. 20,190, which amended various aspects of Chile's capital markets regulatory framework, such as the General Banking Law, Securities, Insurance, Venture Capital and Tax law. Law No. 20,190 is aimed at improving the access to financing for start-up companies and small businesses in order to strengthen confidence in the stock market and to stimulate the development of the financial market in general. The General Banking Law was amended to achieve these ends by, among other things, revising regulations concerning demand deposits, increasing certain credit limits and redefining the calculations to determine the proper amount for a bank's reserves. In addition, the General Banking Law was amended to allow local banks to engage in derivatives, such as options, swaps and forwards, thereby eliminating prior legal impediments to those practices.

### **Deposit Insurance**

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits held by individuals in the Chilean banking system. This guarantee covers obligations with a maximum value of UF108 per person (Ch\$2,119,247.3 or U.S.\$4,274.23 as of December 31, 2007) per calendar year.

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### **Reserve Requirements**

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

In addition, Chilean banks must hold a certain amount of assets in cash or highly liquid instruments. This reserve requirement is equal to the amount by which the daily balance of deposits payable on demand, net of clearing, exceeds 2.5 times the amount of the bank's effective equity. Deposits payable on demand include:

deposits in checking accounts;

other demand deposits or obligations payable on demand and incurred in the ordinary course of business;

saving deposits that allow unconditional withdrawals that bear a stated maturity; and

other deposits unconditionally payable immediately.

Chilean regulations also require that (1) gaps between assets and liabilities maturing within less than 30 days do not exceed a bank's basic capital and (2) gaps between assets and liabilities maturing within less than 90 days do not exceed twice a bank's equity.

### **Minimum Capital**

Under the Chilean General Banking Law, a bank must have a minimum paid-in capital and reserves of UF800,000 (Ch\$15,698 million or U.S.\$31.7 million as of December 31, 2007). However, a bank may begin its operations with 50.0% of such amount, provided that it has an effective equity ratio (defined as effective equity as a percentage of risk-weighted assets) of not less than 12.0%. When such a bank's paid-in capital reaches UF600,000 (Ch\$11,774 million or U.S.\$23.8 million as of December 31, 2007) the effective equity ratio requirement is reduced to 10.0%.

### **Capital Adequacy Requirements**

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

a bank's paid-in capital and reserves, or net capital base;

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

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

Banks should also have a net capital base of at least 3.0% of its total assets, net of required allowances.

### **Market Risk Regulations**

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In September 2005, the Chilean Superintendency of Banks (the Superintendency ) introduced new regulations for measuring market risks (e.g., price and liquidity risks). The Superintendency introduced standardized methodologies based on Basel Market Risk Measurement models for measuring and reporting price risks. These methodologies allow local banks to determine interest rate, foreign exchange ( FX ) and options risks (for FX and interest rate transactions) taken in both their trading and accrual books.

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The trading book is comprised of the debt instruments portfolios that have a liquid secondary market and therefore their valuation at market prices (and the corresponding P&L) impact is representative of market conditions. In addition, all derivative transactions and the FX mismatches are also part of the trading book. The accrual book is comprised of all of the asset and liability balance sheet items that are not part of the trading book.

The new rules state that the price risk of the trading book plus 10% of the risk-weighted assets may not be greater than a bank's effective equity (in this case, the effective equity is equivalent to shareholders' equity plus subordinated debt and other minor adjustments). As of December 31, 2007, the price risk of our trading book totaled Ch\$16,731 million.

The following table shows our regulatory risk availability, computed as the difference between the total risk (10% of the risk-weighted assets plus the trading book risk) and our effective equity, as of December 31, 2007:

|                               | <b>As of December 31, 2007</b><br><b>(in millions of constant Ch\$)</b> |
|-------------------------------|---|
| (a) 10% risk-weighted assets  | 1,153,679   |
| (b) Trading price risk        | 16,731  |
| (c = a + b) Total risk        | 1,170,410   |
| (d) Effective Equity          | 1,233,370   |
| (e = d - c) Risk Availability | 62,960  |

The guidelines for measuring liquidity risk are mainly focused on constructing a projected cash flow including behavioral run-off assumptions for some specific balance sheets items (for example, demand deposits).

In June 2006, the Chilean Superintendency of Banks introduced new regulations relating to (a) the valuation process of debt instruments and (b) the measurement and reporting of credit risk generated by derivative transactions.

Prior to June 2006, the Chilean Superintendency of Banks allowed banks to classify debt instruments for accounting and business purposes as either Trading or Held-to-Maturity only. Starting in June 2006, a new alternative classification was added ( Available-for-Sale ). With these three classifications now in place, the Chilean classification framework is in line with current international standards prevalent in all major financial centers. No changes to the classification system have occurred since June 2006.

Credit risk for derivative transactions, for regulatory purposes, must be measured and reported as:

Credit risk = Current Mark-to-Market (if positive) + Credit Risk Factor (%) \* Notional Amount

The Current Mark-to-Market (or CMTM) of the transaction, if positive, reflects the amount of money owed by the customer today. In other words, the CMTM represents the amount the customer would pay us if the transaction was unwound today.

As we are interested in measuring the amount of money that the customer would owe us at maturity, the potential future value of the transaction is added to the CMTM. This potential is measured as the Credit Risk Factor multiplied by the Notional Amount. The Credit Risk Factor reflects the potential fluctuation (under some specific confidence level) that the market factors involved in the transaction may have in the future until maturity, that positively (or negatively) impact the value (or risk) of the transaction for the bank.

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The regulator determines the Credit Risk Factor by considering market factors (interest rates, FX rates, etc.) and the types of transactions (FX forwards, interest rate swaps, etc.).

The formula detailed above does not completely capture the counterparty risk due to the derivative activities as the above methodology excludes transactions with a current negative value. This exclusion misstates the actual counterparty risk for the counterparties whose transactions are currently showing a negative current value for the bank. It is important to note that the fluctuation of market factors may lead to a positive expected value for the bank at maturity, although the above methodology does not capture such risk while it has a negative value.

## **Lending Limits**

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

a bank may not extend to any entity or individual, directly or indirectly, unsecured credit in an amount that exceeds 10.0% of the bank's effective equity, or in an amount that exceeds 30.0% of its effective equity if the excess over 10.0% is secured by certain assets with a value equal to or higher than such excess. In the case of foreign export trade financing, the ceiling for unsecured credits is 10.0% and 30.0% for secured credits

in the case of financing infrastructure projects built through the concession mechanism, the 10.0% ceiling for unsecured credits is raised to 15.0% if secured by a pledge over the concession, or if granted by two or more banks or finance companies which have executed a credit agreement with the builder or holder of the concession;

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

a bank may not extend to any individual or entity that is, directly or indirectly, related to the ownership or management of the bank, credit under more favorable terms with respect to repayment conditions, interest rates or collateral than those granted to third parties in similar transactions. The aggregate amount of such credits granted to related persons may not exceed 5.0% of the bank's effective equity. The 5.0% unsecured ceiling is raised to 25.0% of the bank's effective equity if the excess over 5.0% is secured by certain assets with a value equal to or higher than such excess. In any case, the aggregate amount of these credits granted by the bank may not exceed the bank's effective equity.

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

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

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

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

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**Classification of Banks**

The Chilean Superintendency of Banks regularly examines and evaluates each bank's solvency and credit management process, including its compliance with loan classification guidelines. On the basis of this evaluation, it classifies banks into various categories.

***Solvency and Management***

In accordance with amended regulations of the Chilean Superintendency of Banks effective as of January 1, 2004, banks are classified into categories I through V based upon their solvency and management ratings. This classification is confidential.

|               |  |
|---------------|--|
| Category I:   | This category is reserved for financial institutions that have been rated level A in terms of solvency and management.   |
| Category II:  | This category is reserved for financial institutions that have been rated (1) level A in terms of solvency and level B in terms of management, (2) level B in terms of solvency and level A in terms of management, or (3) level B in terms of solvency and level B in terms of management.  |
| Category III: | This category is reserved for financial institutions that have been rated (1) level B in terms of solvency and level B in terms of management for two or more consecutive review periods, (2) level A in terms of solvency and level C in terms of management, or (3) level B in terms of solvency and level C in terms of management. |
| Category IV:  | This category is reserved for financial institutions that are rated level A or B in terms of solvency and have been rated level C in terms of management for two or more consecutive review periods.   |
| Category V:   | This category is reserved for financial institutions that have been rated level C in terms of solvency, irrespective of their rating level of management.  |

A bank's solvency rating is determined by its effective equity (after deducting accumulated losses during the financial year) to risk-weighted assets ratio. This ratio is equal to or greater than 10.0% for level A banks, equal to or greater than 8.0% and less than 10.0% for level B banks and less than 8.0% for level C banks.

With respect to a bank's management rating, level A banks are those that are not rated as level B or C. Level B banks display some weakness in internal controls, information systems, response to risk, private risk rating or ability to manage contingency scenarios. Level C banks display significant deficiencies in internal controls, information systems, response to risk, private risk rating or ability to manage contingency scenarios.

**Allowances for Loan Losses**

Chilean banks are required to evaluate their loan portfolio on a continuous basis using models and methods that follow guidelines established by the Chilean Superintendency of Banks that have been approved by our board of directors. This evaluation is conducted in order to determine the necessary allowances to cover loan losses adequately. Each bank is required to calculate and maintain, on a monthly basis, the following types of allowances:

allowances determined by individual analysis models (allowances for normal risk and above normal risk portfolios);

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allowances determined by group analysis models; and

additional allowances for the loan portfolio.

Each year, a bank's board of directors must examine the sufficiency of its level of allowances and provide an opinion stating whether the allowances are sufficient to cover all potential loan losses. The board must also obtain a report from the external auditors as to compliance with required allowance levels. The opinion of the board of directors must be submitted in writing to the Chilean Superintendency of Banks and, if necessary, should state that additional allowances have been created as a result of the board's examination.

The sum of the allowances regarding normal risk portfolios and the additional provisions up to an amount equal to 1.25% of the risk-weighted assets must be accounted as for effective equity in accordance with the Chilean Superintendency of Banks' guidelines.

The Chilean Superintendency of Banks amended its guidelines effective as of January 1, 2004. For a discussion of loan allowances under the previous guidelines, see Selected Statistical Information Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines Allowances for Loan Losses under the Previous Guidelines. Pursuant to the amended guidelines, Chilean banks are required to classify their loan portfolio on an on-going basis for the purpose of determining the amount of allowances for loan losses. Although the Chilean Superintendency of Banks has established these guidelines, banks are given some latitude in devising more stringent classification systems within such guidelines.

In order to create and maintain allowances, Chilean banks use models and methods to classify their portfolio by borrower and loan type. Loans are divided into:

consumer loans (including loans granted to individuals for financing the acquisition of consumer goods or payment of services);

residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate in which the value of the property covers at least 100% of the amount of the loan);

leasing operations (including consumer, commercial and residential leasing);

factoring operations; and

commercial loans (includes loans other than those described in the bullets above).

The models and methods a bank uses to classify its loan portfolio must comply with the following guidelines established by the Chilean Superintendency of Banks.

***Models Based on the Individual Analysis of Borrowers***

An individual analysis of the borrower is necessary if the borrower is a large or complex business, or one to which the bank has no previous exposure. Models based on the individual analysis of borrowers require that the bank assign a risk category level to each borrower and its respective loans. In making such a determination, a bank must consider the following risk factors with respect to the borrower: (i) its industry or sector; (ii) its owners or managers; (iii) its financial situation; (iv) its payment capacity; and (v) its payment behavior.

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Upon completion of this analysis, each borrower and loan must be classified to the following normal risk or above normal risk category levels:

**Borrowers with Normal Risk**

Categories A1, A2 and A3:

Borrowers with payment capacity sufficient to cover their loan obligations. They have no apparent credit risk and their payment capacity is not affected by unfavorable business, economic or financial situations. Category A1 is used exclusively for companies with titles in national currency with a private risk rating equal to or higher than AA-.

Category B:

Borrowers with payment capacity sufficient to cover their loan obligations. While they present some risk, their payment capacity is not affected by unfavorable business, economic or financial situations.

**Borrowers with Above Normal Risk**

Categories C1, C2, C3, C4, D1 or D2:

These borrowers have insufficient payment capacity to cover their loan obligations under predictable circumstances.

*Required Allowances.* For loans in categories A1, A2, A3 or B, the board of directors of a bank is authorized to determine the levels of required allowances. Our board of directors has established the following levels of required allowances for loans classified as A1, A2, A3 and B:

| Classification | Estimated range of loss | Allowance |
|----------------|-------------------------|-----------|
| A1             |                         |           |
| A2             |                         |           |
| A3             |                         | 0.5%      |
| B              |                         | 1.0%      |

For loans in categories C1, C2, C3, C4, D1 or D2, we must have the following levels of allowances:

| Category <sup>(1)</sup> | Estimated range of loss | Allowance <sup>(2)</sup> |
|-------------------------|-------------------------|--------------------------|
| C1                      | Up to 3%                | 2%                       |
| C2                      | More than 3% up to 19%  | 10%                      |
| C3                      | More than 19% up to 29% | 25%                      |
| C4                      | More than 29% up to 49% | 40%                      |
| D1                      | More than 49% up to 79% | 65%                      |
| D2                      | More than 79%           | 90%                      |

(1) Classification into categories is based on a level of expected combined loss from commercial loans and operations of commercial leasing of the borrower. This calculation is made in accordance with our methodology.

(2) Allowance percentages are supported by statistical probabilities.

For a description of the categories and allowance percentages under the previous guidelines, see Statistical Information Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines Allowances for Loan Losses under the Previous Guidelines Global Allowances for Loan Losses.

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### ***Models Based on the Group Analysis of Borrowers***

A model based on the group analysis of borrowers should be used for the evaluation of borrowers whose individual loan amounts are relatively small, primarily loans to individuals and small companies. Each bank determines the level of required allowances depending on the estimated loss that may result from the loans, by classifying the loan portfolio using one or both of the following models:

A model based on the characteristics of the borrowers and their outstanding loans. Borrowers and their loans with similar characteristics will be placed into groups and each group will be assigned a risk level. Characteristics considered include payment behavior (with respect to the bank and other financial institutions), level of debt and financial stability.

A model based on the behavior of a group of loans. Loans with similar payment histories and characteristics will be placed into groups and each group will be assigned a risk level.

### **Additional Allowances**

Under the Chilean Superintendency of Banks regulations, banks may create allowances in addition to those established pursuant to their model-based evaluation of the loan portfolio. However, a bank may create additional allowances only to cover specific risks that have been authorized by the board of directors. Our board of directors has established additional allowances to cover the unexpected deterioration of our loan portfolio.

### **Obligations Denominated in Foreign Currencies**

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

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

a bank's aggregate amount of net foreign currency liabilities having an original maturity of less than 30 days cannot exceed its net capital base and the aggregate amount of net foreign currency liabilities having an original maturity of less than 90 days cannot exceed twice its net capital base.

### **Capital Markets**

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

### **Legal Provisions Regarding Banking Institutions with Economic Difficulties**

The General Banking Law provides that if specified adverse circumstances exist at any bank, its board of directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the board of directors is unable to do so, it must call a special shareholders meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the 30-day period and in the manner agreed to at

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the meeting, or if the Chilean Superintendency of Banks does not approve the board of directors' proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the board of directors and from making any further investments in any instrument other than instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations or if a bank is under provisional administration of the Chilean Superintendency of Banks, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the directors of both banks, as well as by the Chilean Superintendency of Banks, but need not be submitted to the borrowing bank's shareholders for their approval. A creditor bank may not grant such interbank loans to an insolvent bank in an amount exceeding 25.0% of the creditor bank's effective equity. The board of directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, forgive debts or take other measures for the payment of the debts. If the board of directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of effective equity to risk-weighted assets to be no lower than 12.0%. If a bank fails to pay an obligation, it must notify the Chilean Superintendency of Banks, which shall determine if the bank is solvent.

**Dissolution and Liquidation of Banks**

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

**Investments in Foreign Securities**

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

| <b>Rating Agency</b> | <b>Short Term</b> | <b>Long Term</b> |
|----------------------|-------------------|------------------|
| Moody's              | P2                | Baa3             |
| Standard and Poor's  | A3                | BBB-             |
| Fitch IBCA           | F2                | BBB-             |

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

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

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

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

Subject to specific conditions, a bank may grant loans in dollars to subsidiaries or branches of Chilean companies located abroad, to companies listed on foreign stock exchanges located in countries with an international risk rating not less than BB- or its equivalent and, in general, to individuals and entities residing or domiciled abroad.

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

**Adoption of IFRS**

In 2007, the Chilean Superintendency of Banks issued a circular requiring banks to adopt International Financial Reporting Standards (IFRS) for the reporting of financial statements starting on January 1, 2009. There are certain exceptions to the adoption of IFRS by Chilean banks, such as the fact that banks (i) must provide for credit risk based on requirements such as expected losses on loan commitments (i.e., off-balance contingent risk such as authorized credit limits or letters of credit not yet negotiated) and (ii) are not allowed to designate assets or liabilities at fair value.

Since January 1, 2008, Chilean banks have begun to use IFRS in preparation of their financial statements in accordance with the guidance provided by the Superintendency. When we eventually apply IFRS standards to our consolidated financial statements, there will be certain differences in our presentation of financial information. For instance, there will be a change in the valuation of certain items, especially in the determination of allowances for substandard portfolio loans and contingency amounts (e.g., credit lines over current accounts and credit cards and applying effective interest rates over the loan portfolio). At the moment, however, it is not possible to determine the exact impact that the adoption of IFRS will entail in the presentation of our financial information (as compared with Chilean GAAP). We are currently developing a preliminary analysis of how the adoption of IFRS will impact our financial condition and results of operations and we expect to be able to discuss these impacts in greater detail in next year's annual report.

**Changes to Charging of Fees for Bank Services**

On March 25, 2008, the Chilean Superintendency of Banks issued a circular (No. 3,429) which adopted a new rule to govern the charging of fees of commissions for services performed by banks. The new regulation provides general criteria for the calculation of fees depending on which products or services are involved. The new rule seeks to increase transparency in fee and commission structures by improving the accuracy of information delivered to customers.

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Under the new rule, banks will be required to provide adequate disclosure of financial services costs and will submit periodic information on fees effectively charged. In addition, banks must give 60 days' notice to affected customers before implementing any changes related to the amount of fees and other charges and must provide full disclosure of any such fees or charges. In particular, the amended regulation imposes a restriction on the ability of banks to collect fees for current accounts. Banks will only be permitted to charge annual administration fees for certain services (such as non-payment orders, check protests and non-authorized overdrafts, to name a few). The only fees that may be charged for services to current accounts are those that are either voluntarily accepted by the customer or those that relate to the maintenance of systems for providing such services (and not the transactions themselves).

We anticipate that the application of this new rule will have an impact on the Bank's income, primarily due to our inability to charge certain fees which have historically been charged. The amended regulation shall be fully effective as of January 1, 2009.

### **Prevention of Money Laundering and the Financing of Terrorism**

On March 6, 2006, the Chilean Superintendency of Banks issued regulations governing the requirements applicable to banks with respect to prevention of money laundering and terrorism financing. The regulations are aimed at incorporating international anti-money laundering (AML) and terrorism financing laws to the Chilean banking industry. Pursuant to the regulations, the Chilean Superintendency of Banks requires that banks implement an Anti-Money Laundering and Terrorism Financing system based mainly on the "know your customer" concept. Moreover, these policies and procedures must be approved by the board of directors and must take into account the volume and complexity of its operations and other related parties.

Based on these requirements, a Customer Identification Program (as part of the Anti-Money Laundering and Terrorism Financing) is needed to enable the Bank to reestablish the reasonable belief that it knows the true identity of its customers. In general, the program includes:

properly identifying customers, including their background, source and amount of funds, country of origin and other risk factors;

identifying what the Chilean Superintendency of Banks has defined as "persons politically exposed at the international level," or PEPs, both within Chile and internationally;

establishing procedures to open accounts and products, with different documentation requirements needed for different types of accounts and products.

The Anti-Money Laundering and Terrorism Financing system required by local regulations must also include the following components:

AML policies and procedures aimed at preventing the Bank from being used as intermediary to carry out money laundering operations;

Creation of a Compliance Officer on a senior management level who is responsible for coordinating and monitoring day-to-day AML compliance;

Establishment of an AML Committee, whose main function is planning and coordinating the fulfillment of AML policies and procedures. Our AML Committee gathers on a monthly basis and its membership includes the Chairman of the Board, the Chief Executive Officer, Legal Counsel, Operations and Technology Manager, CEO of Banchile Administradora General de Fondos S.A., the Risk Control Manager and the Global Compliance Head. In addition, we have also established a Transaction Analysis Committee, whose purpose is to analyze suspicious transactions, determine continuity of business with such clients and report these matters to the Financial Analysis Unit;



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Use of software tools to detect, monitor and report unusual operations related to transactions made by customers on different products;

Implementation of personnel selection policies and a training program, in order to prevent money laundering issues;

Establishment of a Code of Conduct, in order to guide employee behavior and prevent possible conflicts of interest, among other things; and

Independent testing in the Compliance area, which must be conducted by the Bank's Internal Audit Department.

**ORGANIZATIONAL STRUCTURE**

The following diagram presents our current corporate structure, including our subsidiaries and their respective ownership interests:

With the exception of Banchile Trade Services Limited, which was incorporated in Hong Kong, all of the subsidiaries presented above have their jurisdiction of incorporation in the Republic of Chile.

**PROPERTY, PLANTS AND EQUIPMENT**

We are domiciled in Chile and own the building located at Ahumada 251, Santiago, Chile that is approximately 72,000 square meters and serves as the headquarters for the Bank and its subsidiaries. In addition, we own an approximately 15,000 square meter building located at Huerfanos 740, Santiago, Chile where the remainder of our executive offices are located. At December 31, 2007, we owned the properties on which 158 of our full-service branches and other points of sale are located (approximately 106,500 square meters of office space). As of December 31, 2007, we had leased office space for our remaining 165 full-service branches and other points of sale, the New York and Miami branches, as well as for our representative offices. We also own properties throughout Chile for back office and administrative operations, as well as for storage of documents and other purposes. We believe that our facilities are adequate for our present needs and suitable for their intended purposes.

We also own approximately 135,000 square meters in mainly recreational physical facilities in Chile, which we use to assist our employees in maintaining a healthy work and life balance and which we use for incentive and integration activities.

**Table of Contents****SELECTED STATISTICAL INFORMATION**

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

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

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

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

and

Where:

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

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

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

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

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

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

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

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

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

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

Due to the significant revaluation of the Chilean peso against the U.S. dollar in 2005 and 2007, and the fact that nominal interest rates and the inflation rate were comparatively high in 2005 and 2007, most real interest rates on foreign currency assets and liabilities shown in the tables in Selected Statistical Information are negative in 2005 and 2007.

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

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

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

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

the Central Bank, only the portion that is legally required to be held for liquidity purposes earns interest; and

overseas banks earn interest on certain accounts in certain countries.

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

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

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The following tables show, by currency of denomination, average balances and, where applicable, interest amounts, nominal and real rates for our assets and liabilities for the years ended December 31, 2005, 2006 and 2007:

|                                | Year Ended December 31,  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
|--------------------------------|--|-----------------|----------------------|-------------------|-----------------|-----------------|----------------------|-------------------|-----------------|-----------------|----------------------|-------------------|------|---------|------|--------|-------|---------|
|                                | 2005   |                 |                      |                   | 2006            |                 |                      |                   | 2007            |                 |                      |                   |      |         |      |        |       |         |
|                                | Average balance  | Interest earned | Average nominal rate | Average real rate | Average balance | Interest earned | Average nominal rate | Average real rate | Average balance | Interest earned | Average nominal rate | Average real rate |      |         |      |        |       |         |
|                                | (in millions of constant Ch\$ as of December 31, 2007, except percentages) |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| <b>Assets</b>                  |  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| <b>Interest earning assets</b> |  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| <b>Interbank deposits</b>      |  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| Ch\$                           |  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| UF                             |  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| Foreign currency               | Ch\$   | 172,691         | Ch\$                 | 9,732             | 5.64%           | (6.40)%         | Ch\$                 | 117,807           | Ch\$            | 9,202           | 7.81%                | 9.24%             | Ch\$ | 150,222 | Ch\$ | 14,641 | 9.75% | (5.56)% |
| Total                          |  | 172,691         |                      | 9,732             | 5.64            | (6.40)          |                      | 117,807           |                 | 9,202           | 7.81                 | 9.24              |      | 150,222 |      | 14,641 | 9.75  | (5.56)  |
| <b>Financial investments</b>   |  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| Ch\$                           | 780,993  | 26,276          | 3.36                 | (0.29)            | 677,303         | 33,283          | 4.91                 | 2.29              | 880,897         | 48,344          | 5.49                 | (2.16)            |      |         |      |        |       |         |
| UF                             | 134,924  | 8,359           | 6.20                 | 2.45              | 166,034         | 9,918           | 5.97                 | 3.32              | 140,086         | 19,186          | 13.70                | 5.45              |      |         |      |        |       |         |
| Foreign currency               | 658,117  | 24,390          | 3.71                 | (8.11)            | 525,616         | 27,666          | 5.26                 | 6.66              | 374,752         | 16,115          | 4.30                 | (10.25)           |      |         |      |        |       |         |
| Total                          | 1,574,034  | 59,025          | 3.75                 | (3.32)            | 1,368,953       | 70,867          | 5.18                 | 4.09              | 1,395,735       | 83,645          | 5.99                 | (3.57)            |      |         |      |        |       |         |
| <b>Commercial loans</b>        |  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| Ch\$                           | 1,642,377  | 113,169         | 6.89                 | 3.12              | 1,903,642       | 147,626         | 7.75                 | 5.06              | 2,291,840       | 220,755         | 9.63                 | 1.68              |      |         |      |        |       |         |
| UF                             | 2,723,720  | 225,428         | 8.28                 | 4.45              | 3,431,092       | 228,405         | 6.66                 | 3.98              | 3,798,947       | 443,933         | 11.69                | 3.59              |      |         |      |        |       |         |
| Foreign currency               | 313,500  | 12,247          | 3.91                 | (7.93)            | 277,395         | 13,746          | 4.96                 | 6.35              | 300,835         | 3,488           | 1.16                 | (12.95)           |      |         |      |        |       |         |
| Total                          | 4,679,597  | 350,844         | 7.50                 | 3.15              | 5,612,129       | 389,777         | 6.95                 | 4.46              | 6,391,622       | 668,176         | 10.45                | 2.12              |      |         |      |        |       |         |
| <b>Consumer loans</b>          |  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| Ch\$                           | 817,760  | 154,926         | 18.95                | 14.75             | 1,014,738       | 206,913         | 20.39                | 17.37             | 1,138,353       | 232,021         | 20.38                | 11.65             |      |         |      |        |       |         |
| UF                             | 26,468   | 2,961           | 11.19                | 7.26              | 26,544          | 2,568           | 9.67                 | 6.93              | 27,224          | 4,056           | 14.90                | 6.57              |      |         |      |        |       |         |
| Foreign currency               |  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| Total                          | 844,228  | 157,887         | 18.70                | 14.51             | 1,041,282       | 209,481         | 20.12                | 17.11             | 1,165,577       | 236,077         | 20.25                | 11.53             |      |         |      |        |       |         |
| <b>Interbank loans</b>         |  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| Ch\$                           | 41,967   | 1,477           | 3.52                 | (0.14)            | 18,546          | 960             | 5.18                 | 2.54              | 44,420          | 2,481           | 5.59                 | (2.07)            |      |         |      |        |       |         |
| UF                             |  |                 |                      |                   |                 |                 |                      |                   |                 |                 |                      |                   |      |         |      |        |       |         |
| Foreign currency               | 1,660  | 83              | 5.00                 | (6.96)            | 598             | 38              | 6.35                 | 7.76              | 3,483           | 251             | 7.21                 | (7.75)            |      |         |      |        |       |         |
| Total                          | 43,627   | 1,560           | 3.58                 | (0.39)            | 19,144          | 998             | 5.21                 | 2.70              | 47,903          | 2,732           | 5.70                 | (2.49)            |      |         |      |        |       |         |

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|                            |                |              |       |        |            |              |       |        |            |           |       |         |
|----------------------------|----------------|--------------|-------|--------|------------|--------------|-------|--------|------------|-----------|-------|---------|
| <b>Leasing contracts</b>   |                |              |       |        |            |              |       |        |            |           |       |         |
| Ch\$                       | 19,883         | 1,762        | 8.86  | 5.02   | 23,607     | 2,574        | 10.90 | 8.12   | 39,473     | 4,295     | 10.88 | 2.84    |
| UF                         | 366,996        | 40,570       | 11.05 | 7.13   | 453,152    | 38,705       | 8.54  | 5.82   | 493,970    | 66,810    | 13.53 | 5.29    |
| Foreign currency           | 42,115         | 2,577        | 6.12  | (5.97) | 43,227     | 3,063        | 7.09  | 8.51   | 60,612     | 4,075     | 6.72  | (8.16)  |
| Total                      | 428,994        | 44,909       | 10.47 | 5.75   | 519,986    | 44,342       | 8.53  | 6.15   | 594,055    | 75,180    | 12.66 | 3.76    |
| <b>Foreign trade loans</b> |                |              |       |        |            |              |       |        |            |           |       |         |
| Ch\$                       |                |              |       |        |            |              |       |        |            |           |       |         |
| UF                         | 24,165         | 965          | 3.99  | 0.32   | 26,330     | 568          | 2.16  | (0.40) | 28,003     | 1,892     | 6.76  | (0.99)  |
| Foreign currency           | 670,612        | 26,848       | 4.00  | (7.85) | 689,774    | 43,436       | 6.30  | 7.71   | 760,301    | 14,115    | 1.86  | (12.35) |
| Total                      | 694,777        | 27,813       | 4.00  | (7.56) | 716,104    | 44,004       | 6.14  | 7.41   | 788,304    | 16,007    | 2.03  | (11.95) |
| <b>Mortgage loans</b>      |                |              |       |        |            |              |       |        |            |           |       |         |
| Ch\$                       |                |              |       |        |            |              |       |        |            |           |       |         |
| UF                         | 791,670        | 90,971       | 11.49 | 7.55   | 669,483    | 60,096       | 8.98  | 6.25   | 523,456    | 67,190    | 12.84 | 4.65    |
| Foreign currency           |                |              |       |        |            |              |       |        |            |           |       |         |
| Total                      | 791,670        | 90,971       | 11.49 | 7.55   | 669,483    | 60,096       | 8.98  | 6.25   | 523,456    | 67,190    | 12.84 | 4.65    |
| <b>Contingent loans</b>    |                |              |       |        |            |              |       |        |            |           |       |         |
| Ch\$                       | 89,463         | 1,846        | 2.06  | 2.06   | 121,234    | 1,875        | 1.55  | 1.55   | 139,966    | 1,898     | 1.36  | 1.36    |
| UF                         | 318,220        | 2,552        | 0.80  | 0.80   | 409,764    | 2,931        | 0.72  | 0.72   | 505,271    | 3,086     | 0.61  | 0.61    |
| Foreign currency           | 266,396        | 372          | 0.14  | 0.14   | 358,884    | 524          | 0.15  | 0.15   | 410,436    | 800       | 0.19  | 0.19    |
| Total                      | 674,079        | 4,770        | 0.71  | 0.71   | 889,882    | 5,330        | 0.60  | 0.60   | 1,055,673  | 5,784     | 0.55  | 0.55    |
| <b>Past due loans</b>      |                |              |       |        |            |              |       |        |            |           |       |         |
| Ch\$                       | 22,353         | 1,233        | 5.52  | 1.79   | 25,766     | 1,080        | 4.19  | 1.58   | 27,694     | 638       | 2.30  | (5.12)  |
| UF                         | 64,880         | 677          | 1.04  | (2.52) | 44,887     | 23           | 0.05  | (2.46) | 33,847     | 28        | 0.08  | (7.18)  |
| Foreign currency           | 2,418          |              |       |        | 2,728      |              |       |        | 4,002      |           |       |         |
| Total                      | 89,651         | 1,910        | 2.13  | (1.38) | 73,381     | 1,103        | 1.50  | (0.95) | 65,543     | 666       | 1.02  | (5.87)  |
| Ch\$                       | 3,414,796      | 300,689      | 8.81  | 4.96   | 3,784,836  | 394,311      | 10.42 | 7.65   | 4,562,643  | 510,432   | 11.19 | 3.12    |
| UF                         | 4,451,043      | 372,483      | 8.37  | 4.54   | 5,227,286  | 343,214      | 6.57  | 3.90   | 5,550,804  | 606,181   | 10.92 | 2.88    |
| Foreign currency           | 2,127,509      | 76,249       | 3.58  | (8.22) | 2,016,029  | 97,675       | 4.84  | 6.24   | 2,064,643  | 53,485    | 2.59  | (11.72) |
| Total                      | Ch\$ 9,993,348 | Ch\$ 749,421 | 7.50% | 1.97%  | 11,028,151 | Ch\$ 835,200 | 7.57% | 5.61%  | 12,178,090 | 1,170,098 | 9.61% | 0.49%   |

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|  |      | Year Ended December 31,  |         |           |         |           |         |           |         |           |         |           |
|--|------|--|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|
|  |      | 2005   |         |           | 2006    |           |         |           | 2007    |           |         |           |
|  |      | Average  | Average | Average   | Average | Interest  | Average | Average   | Average | Interest  | Average | Average   |
|  |      | balance  | nominal | real rate | balance | earned    | nominal | real rate | balance | earned    | nominal | real rate |
|  |      | (in millions of constant Ch\$ as of December 31, 2007, except percentages) |         |           |         |           |         |           |         |           |         |           |
| <b>Assets</b>                            |      |  |         |           |         |           |         |           |         |           |         |           |
| <b>Non interest earning assets</b>       |      |  |         |           |         |           |         |           |         |           |         |           |
| <b>Cash and due from banks</b>           |      |  |         |           |         |           |         |           |         |           |         |           |
| Ch\$                                     | Ch\$ | 560,971  |         |           | Ch\$    | 346,262   |         |           | Ch\$    | 408,826   |         |           |
| UF                                       |      |  |         |           |         |           |         |           |         |           |         |           |
| Foreign currency                         |      | 284,444  |         |           |         | 572,327   |         |           |         | 333,143   |         |           |
| Total                                    |      | 845,415  |         |           |         | 918,589   |         |           |         | 741,969   |         |           |
| <b>Allowances for loan losses</b>        |      |  |         |           |         |           |         |           |         |           |         |           |
| Ch\$                                     |      | (152,395)  |         |           |         | (150,356) |         |           |         | (150,598) |         |           |
| UF                                       |      |  |         |           |         |           |         |           |         |           |         |           |
| Foreign currency                         |      | (1,603)  |         |           |         | (270)     |         |           |         | (220)     |         |           |
| Total                                    |      | (153,998)  |         |           |         | (150,626) |         |           |         | (150,818) |         |           |
| <b>Fixed assets</b>                      |      |  |         |           |         |           |         |           |         |           |         |           |
| Ch\$                                     |      | 148,569  |         |           |         | 155,996   |         |           |         | 156,279   |         |           |
| UF                                       |      |  |         |           |         |           |         |           |         |           |         |           |
| Foreign currency                         |      | 1,808  |         |           |         | 2,470     |         |           |         | 1,263     |         |           |
| Total                                    |      | 150,377  |         |           |         | 158,466   |         |           |         | 157,542   |         |           |
| <b>Other assets</b>                      |      |  |         |           |         |           |         |           |         |           |         |           |
| Ch\$                                     |      | 371,393  |         |           |         | 383,180   |         |           |         | 300,674   |         |           |
| UF                                       |      | 1,488  |         |           |         | 1,650     |         |           |         | 2,557     |         |           |
| Foreign currency                         |      | 114,465  |         |           |         | 127,031   |         |           |         | 364,480   |         |           |
| Total                                    |      | 487,346  |         |           |         | 511,861   |         |           |         | 667,711   |         |           |
| <b>Total non interest earning assets</b> |      |  |         |           |         |           |         |           |         |           |         |           |
| Ch\$                                     |      | 928,538  |         |           |         | 735,082   |         |           |         | 715,181   |         |           |
| UF                                       |      | 1,488  |         |           |         | 1,650     |         |           |         | 2,557     |         |           |
| Foreign currency                         |      | 399,114  |         |           |         | 701,558   |         |           |         | 698,666   |         |           |
| Total                                    |      | 1,329,140  |         |           |         | 1,438,290 |         |           |         | 1,416,404 |         |           |
| <b>Total assets</b>                      |      |  |         |           |         |           |         |           |         |           |         |           |
| Ch\$                                     |      | 4,343,334  | 300,689 |           |         | 4,519,918 | 394,311 |           |         | 5,277,824 | 510,432 |           |
| UF                                       |      | 4,452,531  | 372,483 |           |         | 5,228,936 | 343,214 |           |         | 5,553,361 | 606,181 |           |
|  |      | 2,526,623  | 76,249  |           |         | 2,717,587 | 97,675  |           |         | 2,763,309 | 53,485  |           |

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Foreign  
currency

|       |                 |              |                 |              |                 |           |
|-------|-----------------|--------------|-----------------|--------------|-----------------|-----------|
| Total | Ch\$ 11,322,488 | Ch\$ 749,421 | Ch\$ 12,466,441 | Ch\$ 835,200 | Ch\$ 13,594,494 | 1,170,098 |
|-------|-----------------|--------------|-----------------|--------------|-----------------|-----------|

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|   | Year Ended December 31,  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
|---|--|---------------|----------------------|-------------------|-----------------|---------------|----------------------|-------------------|-----------------|---------------|----------------------|-------------------|------|-----------|------|---------|-------|---------|
|   | 2005   |               |                      |                   | 2006            |               |                      |                   | 2007            |               |                      |                   |      |           |      |         |       |         |
|   | Average balance  | Interest paid | Average nominal rate | Average real rate | Average balance | Interest paid | Average nominal rate | Average real rate | Average balance | Interest paid | Average nominal rate | Average real rate |      |           |      |         |       |         |
|   | (in millions of constant Ch\$ as of December 31, 2007, except percentages) |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| <b>Liabilities</b>                                      |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| <b>Interest bearing liabilities</b>                     |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| <b>Savings accounts</b>                                 |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| Ch\$  |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| UF  | Ch\$   | 152,714       | Ch\$                 | 5,867             | 3.84%           | 0.17%         | Ch\$                 | 149,209           | Ch\$            | 3,053         | 2.05%                | (0.51)%           | Ch\$ | 136,098   | Ch\$ | 8,797   | 6.46% | (1.26)% |
| Foreign currency  |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| Total   |  | 152,714       |                      | 5,867             | 3.84            | 0.17          |                      | 149,209           |                 | 3,053         | 2.05                 | (0.51)            |      | 136,098   |      | 8,797   | 6.46  | (1.26)  |
| <b>Time deposits</b>                                    |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| Ch\$  |  | 2,406,826     |                      | 96,651            | 4.02            | 0.34          |                      | 2,856,311         |                 | 184,081       | 6.44                 | 3.78              |      | 3,248,366 |      | 264,548 | 8.14  | 0.30    |
| UF  |  | 1,138,605     |                      | 64,050            | 5.63            | 1.90          |                      | 1,748,544         |                 | 81,740        | 4.67                 | 2.05              |      | 1,999,006 |      | 145,586 | 7.28  | (0.50)  |
| Foreign currency  |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
|   |  | 768,545       |                      | 23,318            | 3.03            | (8.70)        |                      | 874,191           |                 | 12,697        | 1.45                 | 2.80              |      | 761,695   |      | 11,027  | 1.45  | (12.70) |
| Total   |  | 4,313,976     |                      | 184,019           | 4.27            | (0.86)        |                      | 5,479,046         |                 | 278,518       | 5.08                 | 3.07              |      | 6,009,067 |      | 421,161 | 7.01  | (1.61)  |
| <b>Central Bank borrowings</b>                          |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| Ch\$  |  | 33,149        |                      | 1,045             | 3.15            | (0.49)        |                      | 12,682            |                 | 667           | 5.26                 | 2.62              |      | 14,759    |      | 791     | 5.36  | (2.28)  |
| UF  |  | 1,746         |                      | 104               | 5.97            | 2.23          |                      | 1,210             |                 | 86            | 7.10                 | 4.42              |      | 649       |      | 55      | 8.47  | 0.61    |
| Foreign currency  |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| Total   |  | 34,895        |                      | 1,149             | 3.29            | (0.35)        |                      | 13,892            |                 | 753           | 5.42                 | 2.78              |      | 15,408    |      | 846     | 5.49  | (2.16)  |
| <b>Repurchase agreements</b>                            |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| Ch\$  |  | 214,715       |                      | 5,913             | 2.75            | (0.87)        |                      | 210,744           |                 | 10,484        | 4.97                 | 2.34              |      | 277,115   |      | 13,046  | 4.71  | (2.89)  |
| UF  |  | 1,382         |                      |                   |                 |               |                      | 244               |                 |               |                      |                   |      | 962       |      | 51      | 5.30  | (2.34)  |
| Foreign currency  |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
|   |  | 111,275       |                      | 4,933             | 4.43            | (7.47)        |                      | 81,085            |                 | 2,806         | 3.46                 | 4.83              |      | 34,733    |      | 1,896   | 5.46  | (9.25)  |
| Total   |  | 327,372       |                      | 10,846            | 3.31            | (3.11)        |                      | 292,073           |                 | 13,290        | 4.55                 | 3.03              |      | 312,810   |      | 14,993  | 4.79  | (3.59)  |
| <b>Mortgage finance bonds</b>                           |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| Ch\$  |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| UF  |  | 676,348       |                      | 59,767            | 8.84            | 4.99          |                      | 532,761           |                 | 39,142        | 7.35                 | 4.66              |      | 428,383   |      | 51,031  | 11.91 | 3.80    |
| Foreign currency  |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| Total   |  | 676,348       |                      | 59,767            | 8.84            | 4.99          |                      | 532,761           |                 | 39,142        | 7.35                 | 4.66              |      | 428,383   |      | 51,031  | 11.91 | 3.80    |
| <b>Other interest bearing liabilities<sup>(1)</sup></b> |  |               |                      |                   |                 |               |                      |                   |                 |               |                      |                   |      |           |      |         |       |         |
| Ch\$  |  | 182,163       |                      | 2,317             | 1.27            | (2.30)        |                      | 216,251           |                 | 3,819         | 1.77                 | (0.78)            |      | 262,005   |      | 1,505   | 0.57  | (6.72)  |

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|   |                |              |       |         |                |              |       |       |                |              |       |         |
|---|----------------|--------------|-------|---------|----------------|--------------|-------|-------|----------------|--------------|-------|---------|
| UF  | 587,440        | 55,255       | 9.41  | 5.54    | 706,602        | 46,788       | 6.62  | 3.95  | 912,749        | 109,349      | 11.98 | 3.86    |
| Foreign<br>currency                                   | 832,820        | 20,891       | 2.51  | (9.17)  | 723,176        | 14,427       | 1.99  | 3.35  | 766,069        | 23,951       | 3.13  | (11.26) |
| Total   | 1,602,423      | 78,463       | 4.90  | (3.00)  | 1,646,029      | 65,034       | 3.95  | 3.06  | 1,940,823      | 134,805      | 6.95  | (3.54)  |
| <b>Total<br/>interest<br/>bearing<br/>liabilities</b> |                |              |       |         |                |              |       |       |                |              |       |         |
| Ch\$  | 2,836,853      | 105,926      | 3.73  | 0.07    | 3,295,988      | 199,051      | 6.04  | 3.38  | 3,802,245      | 279,890      | 7.36  | (0.43)  |
| UF  | 2,558,235      | 185,043      | 7.23  | 3.45    | 3,138,570      | 170,809      | 5.44  | 2.80  | 3,477,847      | 314,869      | 9.05  | 1.14    |
| Foreign<br>currency                                   | 1,712,640      | 49,142       | 2.87  | (8.85)  | 1,678,452      | 29,930       | 1.78  | 3.13  | 1,562,497      | 36,874       | 2.36  | (11.92) |
| Total   | Ch\$ 7,107,728 | Ch\$ 340,111 | 4.79% | (0.86)% | Ch\$ 8,113,010 | Ch\$ 399,790 | 4.93% | 3.11% | Ch\$ 8,842,589 | Ch\$ 631,633 | 7.14% | (1.84)% |

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

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|  | Year Ended December 31, |                      |                   |                 |               |                      |                   |                 |               |                      |                   |  |
|--|-------------------------|----------------------|-------------------|-----------------|---------------|----------------------|-------------------|-----------------|---------------|----------------------|-------------------|--|
|  | 2005                    |                      |                   | 2006            |               |                      |                   |                 |               | 2007                 |                   |  |
| Average balance  | Interest paid           | Average nominal rate | Average real rate | Average balance | Interest paid | Average nominal rate | Average real rate | Average balance | Interest paid | Average nominal rate | Average real rate |  |
| (in millions of constant Ch\$ as of December 31, 2007, except percentages) |                         |                      |                   |                 |               |                      |                   |                 |               |                      |                   |  |
| <b>Liabilities</b>   |                         |                      |                   |                 |               |                      |                   |                 |               |                      |                   |  |
| <b>Non interest bearing liabilities</b>                                    |                         |                      |                   |                 |               |                      |                   |                 |               |                      |                   |  |
| <b>Non interest bearing demand deposits</b>                                |                         |                      |                   |                 |               |                      |                   |                 |               |                      |                   |  |
| Ch\$   | 1,833,648               |                      |                   | Ch\$            | 1,747,854     |                      |                   | Ch\$            | 1,916,534     |                      |                   |  |
| UF   | 14,803                  |                      |                   |                 | 8,065         |                      |                   |                 | 7,915         |                      |                   |  |
| Foreign currency   | 548,425                 |                      |                   |                 | 444,575       |                      |                   |                 | 392,930       |                      |                   |  |
| Total  | 2,396,876               |                      |                   |                 | 2,200,494     |                      |                   |                 | 2,317,379     |                      |                   |  |
| <b>Contingent liabilities</b>  |                         |                      |                   |                 |               |                      |                   |                 |               |                      |                   |  |
| Ch\$   | 89,290                  |                      |                   |                 | 121,358       |                      |                   |                 | 140,664       |                      |                   |  |
| UF   | 317,712                 |                      |                   |                 | 406,747       |                      |                   |                 | 504,981       |                      |                   |  |
| Foreign currency   | 268,887                 |                      |                   |                 | 361,449       |                      |                   |                 | 413,760       |                      |                   |  |
| Total  | 675,889                 |                      |                   |                 | 889,554       |                      |                   |                 | 1,059,405     |                      |                   |  |
| <b>Other non interest bearing</b>  |                         |                      |                   |                 |               |                      |                   |                 |               |                      |                   |  |
| Ch\$   | 260,095                 |                      |                   |                 | 248,775       |                      |                   |                 | 309,408       |                      |                   |  |
| UF   | 7,609                   |                      |                   |                 | 13,121        |                      |                   |                 | 11,353        |                      |                   |  |
| Foreign currency   | 131,071                 |                      |                   |                 | 162,635       |                      |                   |                 | 170,718       |                      |                   |  |
| Total  | 398,775                 |                      |                   |                 | 424,531       |                      |                   |                 | 491,479       |                      |                   |  |
| <b>Shareholders equity</b>   |                         |                      |                   |                 |               |                      |                   |                 |               |                      |                   |  |
| Ch\$   | 743,220                 |                      |                   |                 | 838,852       |                      |                   |                 | 883,642       |                      |                   |  |
| UF   |                         |                      |                   |                 |               |                      |                   |                 |               |                      |                   |  |
| Foreign currency   |                         |                      |                   |                 |               |                      |                   |                 |               |                      |                   |  |
| Total  | 743,220                 |                      |                   |                 | 838,852       |                      |                   |                 | 883,642       |                      |                   |  |
| <b>Total non interest bearing liabilities and shareholders equity</b>      |                         |                      |                   |                 |               |                      |                   |                 |               |                      |                   |  |
| Ch\$   | 2,926,253               |                      |                   |                 | 2,956,839     |                      |                   |                 | 3,250,248     |                      |                   |  |
| UF   | 340,124                 |                      |                   |                 | 427,933       |                      |                   |                 | 524,249       |                      |                   |  |
| Foreign currency   | 948,383                 |                      |                   |                 | 968,659       |                      |                   |                 | 977,408       |                      |                   |  |
| Total  | 4,214,760               |                      |                   |                 | 4,353,431     |                      |                   |                 | 4,751,905     |                      |                   |  |

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**Total liabilities and shareholders equity**

|                  |                 |              |                 |              |                 |              |
|------------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| Ch\$             | 5,763,106       | 105,926      | 6,252,827       | 199,051      | 7,052,493       | 279,890      |
| UF               | 2,898,359       | 185,043      | 3,566,503       | 170,809      | 4,002,096       | 314,869      |
| Foreign currency | 2,661,023       | 49,142       | 2,647,111       | 29,930       | 2,539,905       | 36,874       |
| Total            | Ch\$ 11,322,488 | Ch\$ 340,111 | Ch\$ 12,466,441 | Ch\$ 399,790 | Ch\$ 13,594,494 | Ch\$ 631,633 |

**Table of Contents****Interest Earning Assets and Net Interest Margin**

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

|   | 2005  | Year Ended December 31, |                     |
|---|---|-------------------------|---------------------|
|   |   | 2006                    | 2007                |
|   | (in millions of constant Ch\$ as of December 31, 2007,<br>except for percentages) |                         |                     |
| <b>Total average interest earning assets</b>            |   |                         |                     |
| Ch\$  | Ch\$ 3,414,796  | Ch\$ 3,784,836          | Ch\$ 4,562,643      |
| UF  | 4,451,043   | 5,227,286               | 5,550,804           |
| Foreign currency  | 2,127,509   | 2,016,029               | 2,064,643           |
| <b>Total</b>  | <b>9,993,348</b>  | <b>11,028,151</b>       | <b>12,178,090</b>   |
| <b>Net interest earned<sup>(1)</sup></b>                |   |                         |                     |
| Ch\$  | 194,763   | 195,260                 | 230,542             |
| UF  | 187,440   | 172,405                 | 291,312             |
| Foreign currency  | 27,107  | 67,745                  | 16,611              |
| <b>Total</b>  | <b>Ch\$ 409,310</b>   | <b>Ch\$ 435,410</b>     | <b>Ch\$ 538,465</b> |
| <b>Net interest margin, nominal basis<sup>(2)</sup></b> |   |                         |                     |
| Ch\$  | 5.70%   | 5.16%                   | 5.05%               |
| UF  | 4.21  | 3.30                    | 5.25                |
| Foreign currency  | 1.27  | 3.36                    | 0.80                |
| <b>Total</b>  | <b>4.10%</b>  | <b>3.95%</b>            | <b>4.42%</b>        |

(1) Net interest earned is defined as interest revenue earned less interest expense incurred.

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

**Changes in Net Interest Revenue Volume and Rate Analysis**

The following tables compare, by currency of denomination, changes in our net interest revenue between 2006 and 2007 and between 2005 and 2006 caused by (i) changes in the average volume of interest earning assets and interest bearing liabilities and (ii) changes in their respective nominal interest rates. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rate, average interest earning assets and average interest bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change in volume and the change in rate.

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|                                | Increase (Decrease)<br>from 2005 to 2006<br>due to changes in |            | Net change<br>from<br>2005 to<br>2006 | Increase (Decrease)<br>from 2006 to 2007<br>due to changes in |            | Net change<br>from<br>2006 to<br>2007 |
|--------------------------------|---|------------|---------------------------------------|---|------------|---------------------------------------|
|                                | Volume  | Rate       |                                       | Volume  | Rate       |                                       |
|                                | (in millions of constant Ch\$ as of December 31, 2007)        |            |                                       |   |            |                                       |
| <b>Assets</b>                  |   |            |                                       |   |            |                                       |
| <b>Interest earning assets</b> |   |            |                                       |   |            |                                       |
| <b>Interbank deposits</b>      |   |            |                                       |   |            |                                       |
| Ch\$                           |   |            |                                       |   |            |                                       |
| UF                             |   |            |                                       |   |            |                                       |
| Foreign currency               | Ch\$ (3,632)  | Ch\$ 3,102 | Ch\$ (530)                            | Ch\$ 2,862  | Ch\$ 2,577 | Ch\$ 5,439                            |
| Total                          | (3,632)   | 3,102      | (530)                                 | 2,862   | 2,577      | 5,439                                 |
| <b>Financial investments</b>   |   |            |                                       |   |            |                                       |
| Ch\$                           | (3,848)   | 10,855     | 7,007                                 | 10,846  | 4,215      | 15,061                                |
| UF                             | 1,868   | (309)      | 1,559                                 | (1,766)   | 11,034     | 9,268                                 |
| Foreign currency               | (5,579)   | 8,855      | 3,276                                 | (7,053)   | (4,498)    | (11,551)                              |
| Total                          | (7,559)   | 19,401     | 11,842                                | 2,027   | 10,751     | 12,778                                |
| <b>Commercial loans</b>        |   |            |                                       |   |            |                                       |
| Ch\$                           | 19,265  | 15,192     | 34,457                                | 33,437  | 39,692     | 73,129                                |
| UF                             | 52,012  | (49,035)   | 2,977                                 | 26,787  | 188,741    | 215,528                               |
| Foreign currency               | (1,524)   | 3,023      | 1,499                                 | 1,073   | (11,331)   | (10,258)                              |
| Total                          | 69,753  | (30,820)   | 38,933                                | 61,297  | 217,102    | 278,399                               |
| <b>Consumer loans</b>          |   |            |                                       |   |            |                                       |
| Ch\$                           | 39,480  | 12,507     | 51,987                                | 25,195  | (87)       | 25,108                                |
| UF                             | 8   | (401)      | (393)                                 | 67  | 1,421      | 1,488                                 |
| Foreign currency               |   |            |                                       |   |            |                                       |
| Total                          | 39,488  | 12,106     | 51,594                                | 25,262  | 1,334      | 26,596                                |
| <b>Interbank loans</b>         |   |            |                                       |   |            |                                       |
| Ch\$                           | (1,035)   | 518        | (517)                                 | 1,439   | 82         | 1,521                                 |
| UF                             |   |            |                                       |   |            |                                       |
| Foreign currency               | (63)  | 18         | (45)                                  | 207   | 6          | 213                                   |
| Total                          | (1,098)   | 536        | (562)                                 | 1,646   | 88         | 1,734                                 |
| <b>Leasing contracts</b>       |   |            |                                       |   |            |                                       |
| Ch\$                           | 364   | 448        | 812                                   | 1,726   | (5)        | 1,721                                 |
| UF                             | 8,424   | (10,289)   | (1,865)                               | 3,758   | 24,347     | 28,105                                |
| Foreign currency               | 70  | 416        | 486                                   | 1,176   | (164)      | 1,012                                 |
| Total                          | 8,858   | (9,425)    | (567)                                 | 6,660   | 24,178     | 30,838                                |
| <b>Foreign trade loans</b>     |   |            |                                       |   |            |                                       |
| Ch\$                           |   |            |                                       |   |            |                                       |
| UF                             | 80  | (477)      | (397)                                 | 38  | 1,286      | 1,324                                 |
| Foreign currency               | 788   | 15,800     | 16,588                                | 4,045   | (33,366)   | (29,321)                              |
| Total                          | 868   | 15,323     | 16,191                                | 4,083   | (32,080)   | (27,997)                              |
| <b>Mortgage loans</b>          |   |            |                                       |   |            |                                       |
| Ch\$                           |   |            |                                       |   |            |                                       |
| UF                             | (12,770)  | (18,105)   | (30,875)                              | (15,005)  | 22,099     | 7,094                                 |

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| Foreign currency              |             |              |             |             |              |              |
|-------------------------------|-------------|--------------|-------------|-------------|--------------|--------------|
| Total                         | (12,770)    | (18,105)     | (30,875)    | (15,005)    | 22,099       | 7,094        |
| Contingent loans              |             |              |             |             |              |              |
| Ch\$                          | 559         | (530)        | 29          | 270         | (247)        | 23           |
| UF                            | 676         | (297)        | 379         | 622         | (467)        | 155          |
| Foreign currency              | 134         | 18           | 152         | 83          | 193          | 276          |
| Total                         | 1,369       | (809)        | 560         | 975         | (521)        | 454          |
| Past due loans                |             |              |             |             |              |              |
| Ch\$                          | 171         | (324)        | (153)       | 76          | (518)        | (442)        |
| UF                            | (160)       | (494)        | (654)       | (7)         | 12           | 5            |
| Foreign currency              |             |              |             |             |              |              |
| Total                         | 11          | (818)        | (807)       | 69          | (506)        | (437)        |
| Total interest earning assets |             |              |             |             |              |              |
| Ch\$                          | 54,956      | 38,666       | 93,622      | 72,989      | 43,132       | 116,121      |
| UF                            | 50,138      | (79,407)     | (29,269)    | 14,494      | 248,473      | 262,967      |
| Foreign currency              | (9,806)     | 31,232       | 21,426      | 2,393       | (46,583)     | (44,190)     |
| Total                         | Ch\$ 95,288 | Ch\$ (9,509) | Ch\$ 85,779 | Ch\$ 89,876 | Ch\$ 245,022 | Ch\$ 334,898 |

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|   | Increase (Decrease)<br>from 2005 to 2006<br>due to changes in |              | Net change<br>from<br>2005 to 2006 | Increase (Decrease)<br>from 2006 to 2007<br>due to changes in |              | Net change<br>from<br>2006 to<br>2007 |
|---|---|--------------|------------------------------------|---|--------------|---------------------------------------|
|   | Volume  | Rate         |                                    | Volume  | Rate         |                                       |
|   | (in millions of constant Ch\$ as of December 31, 2007)        |              |                                    |   |              |                                       |
| <b>Liabilities</b>                        |   |              |                                    |   |              |                                       |
| <b>Interest bearing liabilities</b>       |   |              |                                    |   |              |                                       |
| <b>Savings accounts</b>                   |   |              |                                    |   |              |                                       |
| Ch\$                                      |   |              |                                    |   |              |                                       |
| UF  | Ch\$ (132)  | Ch\$ (2,682) | Ch\$ (2,814)                       | Ch\$ (291)  | Ch\$ 6,035   | Ch\$ 5,744                            |
| Foreign currency                          |   |              |                                    |   |              |                                       |
| Total                                     | (132)   | (2,682)      | (2,814)                            | (291)   | 6,035        | 5,744                                 |
| <b>Time deposits</b>                      |   |              |                                    |   |              |                                       |
| Ch\$                                      | 20,626  | 66,804       | 87,430                             | 27,548  | 52,919       | 80,467                                |
| UF  | 29,903  | (12,213)     | 17,690                             | 13,043  | 50,803       | 63,846                                |
| Foreign currency                          | 2,857   | (13,478)     | (10,621)                           | (1,629)   | (41)         | (1,670)                               |
| Total                                     | 53,386  | 41,113       | 94,499                             | 38,962  | 103,681      | 142,643                               |
| <b>Central Bank borrowings</b>            |   |              |                                    |   |              |                                       |
| Ch\$                                      | (852)   | 474          | (378)                              | 111   | 13           | 124                                   |
| UF  | (36)  | 18           | (18)                               | (45)  | 14           | (31)                                  |
| Foreign currency                          |   |              |                                    |   |              |                                       |
| Total                                     | (888)   | 492          | (396)                              | 66  | 27           | 93                                    |
| <b>Repurchase agreements</b>              |   |              |                                    |   |              |                                       |
| Ch\$                                      | (111)   | 4,682        | 4,571                              | 3,150   | (588)        | 2,562                                 |
| UF  |   |              |                                    |   | 51           | 51                                    |
| Foreign currency                          | (1,176)   | (951)        | (2,127)                            | (2,065)   | 1,155        | (910)                                 |
| Total                                     | (1,287)   | 3,731        | 2,444                              | 1,085   | 618          | 1,703                                 |
| <b>Mortgage finance bonds</b>             |   |              |                                    |   |              |                                       |
| Ch\$                                      |   |              |                                    |   |              |                                       |
| UF  | (11,496)  | (9,129)      | (20,625)                           | (8,811)   | 20,700       | 11,889                                |
| Foreign currency                          |   |              |                                    |   |              |                                       |
| Total                                     | (11,496)  | (9,129)      | (20,625)                           | (8,811)   | 20,700       | 11,889                                |
| <b>Other interest bearing liabilities</b> |   |              |                                    |   |              |                                       |
| Ch\$                                      | 488   | 1,014        | 1,502                              | 678   | (2,992)      | (2,314)                               |
| UF  | 9,859   | (18,326)     | (8,467)                            | 16,577  | 45,984       | 62,561                                |
| Foreign currency                          | (2,530)   | (3,934)      | (6,464)                            | 902   | 8,622        | 9,524                                 |
| Total                                     | 7,817   | (21,246)     | (13,429)                           | 18,157  | 51,614       | 69,771                                |
| <b>Total interest bearing liabilities</b> |   |              |                                    |   |              |                                       |
| Ch\$                                      | 20,151  | 72,974       | 93,125                             | 31,487  | 49,352       | 80,839                                |
| UF  | 28,098  | (42,332)     | (14,234)                           | 20,473  | 123,587      | 144,060                               |
| Foreign currency                          | (849)   | (18,363)     | (19,212)                           | (2,792)   | 9,736        | 6,944                                 |
| Total                                     | Ch\$ 47,400   | Ch\$ 12,279  | Ch\$ 59,679                        | Ch\$ 49,168   | Ch\$ 182,675 | Ch\$ 231,843                          |



**Table of Contents****Financial Investment***(a) Trading Securities:*

The detail of instruments classified as trading securities is as follows:

|   | As of December 31,                                     |                       |                       | Weighted Average<br>Nominal Rate<br>as of December 31, |
|---|--|-----------------------|-----------------------|--|
|   | 2005   | 2006                  | 2007                  | 2007<br>%  |
|   | (in millions of constant Ch\$ as of December 31, 2007, |                       |                       |  |
|   | except for rate data)                                  |                       |                       |  |
| <b>Instruments issued by the Chilean Government and the Central Bank of Chile</b> |  |                       |                       |  |
| Instruments issued by the Central Bank of Chile                                   | Ch\$ 747,654   | Ch\$ 529,211          | Ch\$ 302,065          | 5.71%  |
| Instruments issued by the General Treasury of the Republic                        |  |                       | 414                   | 3.81   |
| Other government instruments  | 21,633   | 469                   | 273                   | 3.44   |
| <b>Subtotal</b>   | <b>769,287</b>   | <b>529,680</b>        | <b>302,752</b>        | <b>5.70</b>  |
| <b>Other Financial Instruments</b>  |  |                       |                       |  |
| Promissory notes for deposits in Chilean banks                                    | 192,866  | 275,624               | 395,122               | 7.45   |
| Other foreign instruments issued  | 331,966  | 259,133               | 365,452               | 4.88   |
| Bonds from other Chilean companies  | 107,688  | 104,943               | 100,192               | 5.81   |
| Instruments issued by foreign Governments or Central Banks                        | 14,082   | 58,800                |                       |  |
| Mortgage bonds of Chilean banks   | 36,972   | 53,633                | 60,852                | 4.61   |
| Other instruments issued in Chile   | 1,275  | 4,165                 | 4,102                 | 4.11   |
| Bonds from Chilean banks  | 14,511   |                       | 19,009                | 6.98   |
| <b>Subtotal</b>   | <b>699,360</b>   | <b>756,298</b>        | <b>944,729</b>        | <b>6.03</b>  |
| <b>Total</b>  | <b>Ch\$ 1,468,647</b>                                  | <b>Ch\$ 1,285,978</b> | <b>Ch\$ 1,247,481</b> | <b>5.95%</b>   |

Instruments issued by the Chilean Government and the Central Bank of Chile include instruments sold under agreements to repurchase to customers and financial institutions, amounting to Ch\$98,702 million, Ch\$59,955 million and Ch\$48,727 million as of December 31, 2005, 2006 and 2007, respectively. Other Financial Instruments include instruments sold under agreements to repurchase to customers and financial instruments, amounting to Ch\$169,098 million, Ch\$233,943 million and Ch\$190,472 million as of December 31, 2005, 2006 and 2007, respectively.

*(b) Investment Portfolio:*

The detail of instruments classified as available for sale securities and as investments held to maturity is as follows:

*(i) Available for sale*

|  | 2005 | As of December 31,<br>2006 | 2007 | Weighted Average<br>Nominal Rate as of |
|--|------|----------------------------|------|--|
|--|------|----------------------------|------|--|

December 31,  
2007  
%

(in millions of constant Ch\$ as of  
December 31, 2007)

|  |                    |                    |             |
|--|--------------------|--------------------|-------------|
| Instruments issued by foreign Governments or Central Banks | Ch\$ 25,276        | Ch\$ 43,031        | Ch\$        |
| Bonds from other Chilean companies                         | Ch\$ 1,748         |                    |             |
| <b>Total</b>   | <b>Ch\$ 27,024</b> | <b>Ch\$ 43,031</b> | <b>Ch\$</b> |

As of December 31, the portfolio of available for sale securities include a net unrealized loss of Ch\$4 million, Ch\$9 million and Ch\$0 million in 2005, 2006 and 2007, respectively, recorded in equity.

**Table of Contents***(ii) Held to maturity*

|  | As of December 31,  |             |      | Weighted Average<br>Nominal Rate<br>as of December 31,<br>2007<br>% |
|--|---|-------------|------|---|
|  | 2005  | 2006        | 2007 |   |
|  | (in millions of constant Ch\$ as of<br>December 31, 2007) |             |      |   |
| Instruments issued by Foreign Governments or Central Banks | Ch\$ 16,904   | Ch\$ 17,187 | Ch\$ |   |
| Total  | Ch\$ 16,904   | Ch\$ 17,187 | Ch\$ |   |

*(c) Maturity of Financial Investment:*

The maturities of the securities trading, held to maturity and available for sale, as of December 31, 2007 are as follows:

|                                     | Estimated<br>Fair Value<br>(in millions of constant Ch\$<br>as of December 31, 2007) |
|-------------------------------------|--|
| Trading securities <sup>(1)</sup> : |  |
| Due in one year or less             | 1,247,481  |
| Securities available for sale:      |  |
| Due in one year or less             |  |
| Securities held to maturity:        |  |
| Due in one year or less             |  |

(1) Trading securities are classified as due in one year or less, because they are bought and held principally for the purpose of selling in the near term.

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

| Instruments  | As of December 31,                                     |   |                         |                   |                                 |                         |                   |                                 |                         |
|--|--|---|-------------------------|-------------------|---------------------------------|-------------------------|-------------------|---------------------------------|-------------------------|
|  | Carrying<br>Value                                      | 2005<br>Unrealized<br>Gains<br>(Losses) | Estimated<br>Fair Value | 2006              |                                 |                         | 2007              |                                 |                         |
|  |  |   |                         | Carrying<br>Value | Unrealized<br>Gains<br>(Losses) | Estimated<br>Fair Value | Carrying<br>Value | Unrealized<br>Gains<br>(Losses) | Estimated<br>Fair Value |
|  | (in millions of constant Ch\$ as of December 31, 2007) |   |                         |                   |                                 |                         |                   |                                 |                         |
| Instruments issued by<br>Foreign Governments or<br>Central Banks | Ch\$ 16,905  | Ch\$ (1)                                | Ch\$ 16,904             | Ch\$ 17,187       | Ch\$                            | Ch\$ 17,187             | Ch\$              | Ch\$                            | Ch\$                    |
| Total  | Ch\$ 16,905  | Ch\$ (1)                                | Ch\$ 16,904             | Ch\$ 17,187       | Ch\$                            | Ch\$ 17,187             | Ch\$              | Ch\$                            | Ch\$                    |

The portfolio of securities available for sale and held to maturity corresponds entirely to the positions taken by our foreign branches. In anticipation of the sale of those operations to Citigroup as part of the merger with Citibank Chile, our foreign branches liquidated these positions during the last quarter of 2007. As a result, there are no securities reported under either category as of December 31, 2007.



**Table of Contents****Loan Portfolio**

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

|                                  | 2003   | 2004                  | As of December 31,<br>2005 | 2006                   | 2007                   |
|----------------------------------|--|-----------------------|----------------------------|------------------------|------------------------|
|                                  | (in millions of constant Ch\$ as of December 31, 2007) |                       |                            |                        |                        |
| <b>Commercial loans:</b>         |  |                       |                            |                        |                        |
| General commercial loans         | Ch\$ 3,076,571   | Ch\$ 3,257,325        | Ch\$ 3,849,894             | Ch\$ 4,264,756         | Ch\$ 4,981,777         |
| Foreign trade loans              | 766,521  | 680,540               | 603,949                    | 727,416                | 868,747                |
| Interbank loans                  | 15,397   | 17,265                | 27,427                     | 46,202                 | 28,419                 |
| Leasing contracts                | 313,181  | 390,627               | 498,718                    | 579,075                | 651,726                |
| Other outstanding loans          | 513,505  | 1,063,599             | 1,463,922                  | 1,821,934              | 2,223,875              |
| <b>Subtotal commercial loans</b> | <b>4,685,175</b>                                       | <b>5,409,356</b>      | <b>6,443,910</b>           | <b>7,439,383</b>       | <b>8,754,544</b>       |
| <b>Mortgage loans:</b>           |  |                       |                            |                        |                        |
| Residential                      | 703,432  | 504,210               | 403,491                    | 347,211                | 271,095                |
| Commercial                       | 610,081  | 427,201               | 331,581                    | 277,017                | 200,414                |
| <b>Subtotal mortgage loans</b>   | <b>1,313,513</b>                                       | <b>931,411</b>        | <b>735,072</b>             | <b>624,228</b>         | <b>471,509</b>         |
| <b>Consumer loans</b>            | <b>685,483</b>   | <b>785,963</b>        | <b>947,581</b>             | <b>1,151,676</b>       | <b>1,257,738</b>       |
| <b>Past due loans:</b>           |  |                       |                            |                        |                        |
| Commercial loans                 | 105,437  | 76,975                | 58,436                     | 49,932                 | 45,587                 |
| Residential mortgage loans       | 13,019   | 14,320                | 15,201                     | 9,560                  | 6,249                  |
| Consumer loans                   | 3,923  | 4,195                 | 4,243                      | 6,130                  | 8,727                  |
| Factoring loans                  |  |                       |                            | 5                      | 5                      |
| Leasing contracts                | 472  | 715                   | 358                        | 623                    | 759                    |
| <b>Subtotal past due loans</b>   | <b>122,851</b>   | <b>96,205</b>         | <b>78,238</b>              | <b>66,250</b>          | <b>61,327</b>          |
| <b>Contingent loans</b>          | <b>476,965</b>   | <b>603,121</b>        | <b>793,437</b>             | <b>1,060,375</b>       | <b>1,268,808</b>       |
| <b>Total loans</b>               | <b>Ch\$ 7,283,987</b>                                  | <b>Ch\$ 7,826,056</b> | <b>Ch\$ 8,998,238</b>      | <b>Ch\$ 10,341,912</b> | <b>Ch\$ 11,813,926</b> |

The loan categories are as follows:

Commercial loans are short-term and long-term loans made to companies or businesses, at variable or fixed interest rates in order to finance working capital or investments.

Consumer loans are loans to individuals granted, principally in Chilean pesos, 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 state mortgage. These loans are financed through 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.

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

Leasing contracts are agreements for financing leases of capital equipment and other property.

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Other outstanding loans principally include bills of exchange, other mortgage loans, which are financed by Banco de Chile's general borrowings and factoring.

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

Contingent loans consist of open and confirmed letters of credit together with guarantees granted by Banco de Chile in Ch\$, UF and foreign currencies (mainly U.S. dollars). Unlike U.S. GAAP, Chilean GAAP requires such loans to be included on a bank's balance sheet. See Note 29 to our consolidated audited financial statements for a description of the significant differences between Chilean GAAP and U.S. GAAP as they relate to our consolidated subsidiaries and us.

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

**Maturity and Interest Rate Sensitivity of Loans as of December 31, 2007**

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2007:

|  | Balance as of<br>December 31,<br>2007 | Due within<br>1 month | Due after 1<br>month but<br>within 6<br>months | Due after 6<br>months but<br>within 12<br>months | Due after 1<br>year but<br>within 3<br>years | Due after 3<br>years but<br>within 5<br>years | Due after<br>5 years |
|--|---------------------------------------|-----------------------|--|--|--|---|----------------------|
| (in millions of constant Ch\$ as of December 31, 2007) |                                       |                       |  |  |  |   |                      |
| Commercial loans                                       | Ch\$ 4,981,777                        | Ch\$ 585,777          | Ch\$ 1,335,361                                 | Ch\$ 609,873                                     | Ch\$ 855,303                                 | Ch\$ 606,536                                  | Ch\$ 988,927         |
| Consumer loans   | 1,257,738                             | 335,758               | 216,872  | 180,685  | 409,697                                      | 105,356                                       | 9,370                |
| Mortgage loans   | 471,509                               | 6,142                 | 23,461   | 28,271   | 106,905                                      | 95,491  | 211,239              |
| Foreign trade loans                                    | 868,747                               | 230,310               | 487,900  | 95,338   | 31,287                                       | 14,624  | 9,288                |
| Interbank loans  | 28,419                                | 28,419                |  |  |  |   |                      |
| Leasing contracts                                      | 651,726                               | 46,045                | 87,527   | 91,150   | 223,152                                      | 93,752  | 110,100              |
| Other outstanding loans                                | 2,223,875                             | 246,929               | 234,169  | 72,796   | 223,847                                      | 207,790                                       | 1,238,344            |
| Past due loans   | 61,327                                | 61,327                |  |  |  |   |                      |
| Subtotal   | 10,545,118                            | 1,540,707             | 2,385,290                                      | 1,078,113  | 1,850,191                                    | 1,123,549                                     | 2,567,268            |
| Contingent loans                                       | 1,268,808                             | 168,966               | 399,193  | 260,580  | 405,273                                      | 32,841  | 1,955                |
| Total loans  | Ch\$ 11,813,926                       | Ch\$ 1,709,673        | Ch\$ 2,784,483                                 | Ch\$ 1,338,693                                   | Ch\$ 2,255,464                               | Ch\$ 1,156,390                                | Ch\$ 2,569,223       |

The following table presents the interest rate sensitivity of our outstanding loans due after one year as of December 31, 2007, not including contingent loans:

|                  | As of December 31, 2007<br>(in millions of constant Ch\$ as<br>of December 31, 2007) |
|------------------|--|
| Variable rate    |  |
| Ch\$             | Ch\$ 259,231   |
| UF               | 960,164  |
| Foreign currency | 70,850   |
| Total            | 1,290,245  |
| Fixed rate       |  |
| Ch\$             | 1,060,992  |
| UF               | 3,133,697  |
| Foreign currency | 56,074   |
| Total            | 4,250,763  |

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|       |      |           |
|-------|------|-----------|
| Total | Ch\$ | 5,541,008 |
|-------|------|-----------|

**Table of Contents****Loans by Economic Activity**

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

|   | 2005           |                     | As of December 31, 2006 |                     | 2007           |                     |
|---|----------------|---------------------|-------------------------|---------------------|----------------|---------------------|
|   | Loan Portfolio | % of loan Portfolio | Loan Portfolio          | % of loan Portfolio | Loan Portfolio | % of loan Portfolio |
| (in millions of constant Ch\$ as of December 31, 2007 except for percentages) |                |                     |                         |                     |                |                     |
| <b>Agriculture, Livestock, Forestry, Agribusiness, Fishing:</b>               |                |                     |                         |                     |                |                     |
| Agriculture and livestock   | Ch\$ 178,720   | 2.18%               | Ch\$ 196,802            | 2.12%               | Ch\$ 206,956   | 1.96%               |
| Fruit   | 188,502        | 2.30                | 201,553                 | 2.17                | 192,467        | 1.83                |
| Forestry and wood extraction  | 23,976         | 0.29                | 17,250                  | 0.19                | 15,339         | 0.15                |
| Fishing   | 58,440         | 0.71                | 47,962                  | 0.52                | 75,950         | 0.72                |
| Subtotal  | 449,638        | 5.48                | 463,567                 | 5.00                | 490,712        | 4.66                |
| <b>Mining and Petroleum:</b>  |                |                     |                         |                     |                |                     |
| Mining and quarries   | 32,566         | 0.40                | 23,675                  | 0.26                | 36,329         | 0.34                |
| Natural gas and crude oil extraction  | 38,270         | 0.47                | 814                     | 0.01                | 194            |                     |
| Subtotal  | 70,836         | 0.87                | 24,489                  | 0.27                | 36,523         | 0.34                |
| <b>Manufacturing:</b>   |                |                     |                         |                     |                |                     |
| Tobacco, food and beverages   | 141,851        | 1.73                | 166,461                 | 1.79                | 188,605        | 1.79                |
| Textiles, clothing and leather goods  | 75,083         | 0.92                | 97,811                  | 1.05                | 109,626        | 1.04                |
| Wood and wood products  | 60,262         | 0.73                | 52,542                  | 0.57                | 72,702         | 0.69                |
| Paper, printing and publishing  | 43,932         | 0.54                | 72,954                  | 0.79                | 48,846         | 0.46                |
| Oil refining, carbon and rubber   | 105,625        | 1.29                | 79,078                  | 0.85                | 126,119        | 1.20                |
| Production of basic metal, non-mineral, machine and equipment                 | 235,704        | 2.87                | 231,768                 | 2.50                | 277,958        | 2.64                |
| Other manufacturing industries  | 67,113         | 0.82                | 69,896                  | 0.75                | 66,192         | 0.63                |
| Subtotal  | 729,570        | 8.90                | 770,510                 | 8.30                | 890,048        | 8.45                |
| <b>Electricity, Gas and Water:</b>  |                |                     |                         |                     |                |                     |
| Electricity, gas and water  | 73,278         | 0.89                | 66,177                  | 0.71                | 100,919        | 0.96                |
| Subtotal  | 73,278         | 0.89                | 66,177                  | 0.71                | 100,919        | 0.96                |
| <b>Construction:</b>  |                |                     |                         |                     |                |                     |
| Residential buildings   | 233,298        | 2.84                | 287,507                 | 3.10                | 291,968        | 2.77                |
| Other constructions   | 494,482        | 6.03                | 510,168                 | 5.50                | 574,848        | 5.45                |
| Subtotal  | 727,780        | 8.87                | 797,675                 | 8.60                | 866,816        | 8.22                |
| <b>Commerce:</b>  |                |                     |                         |                     |                |                     |
| Wholesale   | 322,853        | 3.93                | 401,936                 | 4.33                | 384,185        | 3.64                |
| Retail, restaurants and hotels  | 477,519        | 5.82                | 549,261                 | 5.92                | 621,885        | 5.90                |
| Subtotal  | 800,372        | 9.75                | 951,197                 | 10.25               | 1,006,070      | 9.54                |
| <b>Transport, Storage and Communications:</b>                                 |                |                     |                         |                     |                |                     |
| Transport and storage   | 195,767        | 2.39                | 241,882                 | 2.61                | 261,812        | 2.48                |
| Communications  | 26,105         | 0.32                | 33,588                  | 0.36                | 76,786         | 0.73                |
| Subtotal  | 221,872        | 2.71                | 275,470                 | 2.97                | 338,598        | 3.21                |
| <b>Financial Services:</b>  |                |                     |                         |                     |                |                     |

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|  |                |         |                |         |                 |         |
|--|----------------|---------|----------------|---------|-----------------|---------|
| Financial and insurance companies              | 830,099        | 10.11   | 953,296        | 10.27   | 1,013,722       | 9.61    |
| Holding companies and other financial services | 747,661        | 9.11    | 896,218        | 9.66    | 988,377         | 9.37    |
| Subtotal                                       | 1,577,760      | 19.22   | 1,849,514      | 19.93   | 2,002,099       | 18.98   |
| Community, Social and Personal Services:       |                |         |                |         |                 |         |
| Community, social and personal services        | 1,123,078      | 13.69   | 1,252,503      | 13.49   | 1,579,922       | 14.98   |
| Subtotal                                       | 1,123,078      | 13.69   | 1,252,503      | 13.49   | 1,579,922       | 14.98   |
| Consumer Loans                                 | 954,305        | 11.63   | 1,160,605      | 12.50   | 1,264,047       | 11.99   |
| Residential Mortgage Loans                     | 1,476,312      | 17.99   | 1,669,830      | 17.98   | 1,969,364       | 18.67   |
| Total  | Ch\$ 8,204,801 | 100.00% | Ch\$ 9,281,537 | 100.00% | Ch\$ 10,545,118 | 100.00% |

**Table of Contents****Foreign Country Outstanding Loans**

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

|                      | As of December 31,                                     |        |        |
|----------------------|--|--------|--------|
|                      | 2005   | 2006   | 2007   |
|                      | (in millions of constant Ch\$ as of December 31, 2007) |        |        |
|                      | Ch\$   | Ch\$   | Ch\$   |
| Argentina            | 1,434  | 116    | 100    |
| Australia            | 359  | 19,091 |        |
| Austria              | 4,820  | 4,678  | 731    |
| Belgium              | 800  | 35,807 | 910    |
| Brazil               | 65,849   | 73,522 | 29,273 |
| British West Indies  | 4,881  |        |        |
| Canada               | 1,352  | 2,673  | 143    |
| China                | 26,541   | 42,780 | 62,242 |
| Colombia             | 332  | 235    | 105    |
| Czech Repplic        |  | 32     | 31     |
| Dinamarca            | 16   |        | 234    |
| Ecuador              | 6  |        |        |
| El Salvador          | 48   | 48     | 59     |
| Finland              | 2,647  | 579    | 49     |
| France               | 5,925  | 14,254 | 2,803  |
| Germany              | 779  | 3,106  | 7,339  |
| Holland              |  |        | 9,695  |
| Hong Kong            | 63   | 8,380  | 80     |
| India                | 587  | 11,921 | 26,523 |
| Ireland              | 3,212  |        |        |
| Israel               | 75   | 79     | 806    |
| Island               |  | 134    |        |
| Italy                | 2,075  | 1,335  | 1,194  |
| Japan.               | 3,783  | 4,143  | 5,876  |
| Mexico               | 12,156   | 3,387  | 2,216  |
| Netherlands          |  |        | 355    |
| New Zealand          | 71   | 379    | 50     |
| Norway               | 3  | 91     |        |
| Oman                 |  | 415    | 59     |
| Panama               | 790  | 3,227  | 243    |
| Paraguay             |  | 2,447  |        |
| Perú                 | 6,537  | 5,332  | 6,934  |
| Portugal             | 522  |        |        |
| Singapore            | 1,065  | 67     |        |
| South Africa         | 11   | 230    | 6,682  |
| South Korea          | 7,798  | 41,389 | 46,780 |
| Spain                | 6  | 139    | 36     |
| Switzerland          |  | 100    | 55     |
| Sweden               |  | 445    | 2,663  |
| Taiwan               | 4,451  | 908    | 4,312  |
| United Arab Emirates | 510  | 143    |        |
| United Kingdom       | 34,439   | 44,170 | 20,053 |
| United States        | 19,389   | 8,634  | 7,250  |
| Uruguay              |  | 1,817  | 1,221  |
| Venezuela            | 5,695  | 6,002  | 4,996  |

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|       |              |              |              |
|-------|--------------|--------------|--------------|
| Total | Ch\$ 219,027 | Ch\$ 342,235 | Ch\$ 252,098 |
|-------|--------------|--------------|--------------|

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

|                | As of December 31,                                     |  |             |  |             |  |
|----------------|--|--|-------------|--|-------------|--|
|                | 2005   |  | 2006        |  | 2007        |  |
|                | (in millions of constant Ch\$ as of December 31, 2007) |  |             |  |             |  |
|                | Ch\$   |  | Ch\$        |  | Ch\$        |  |
| Australia      | 25   |  | 83          |  | 76          |  |
| Austria        | 43   |  | 145         |  | 134         |  |
| Belgium        | 93   |  | 291         |  | 334         |  |
| Canada         | 338  |  | 433         |  | 425         |  |
| China          | 68   |  | 78          |  | 18          |  |
| Denmark        | 25   |  | 39          |  | 37          |  |
| Finland        | 15   |  | 114         |  | 172         |  |
| France         | 538  |  | 178         |  | 444         |  |
| Germany        | 4,070  |  | 7,677       |  | 4,598       |  |
| Italy          | 13,125   |  | 4,952       |  | 3,035       |  |
| Japan          | 1,584  |  | 15,330      |  | 1,898       |  |
| Netherlands    | 63   |  |             |  | 119         |  |
| Norway         | 37   |  | 111         |  | 84          |  |
| Russia         |  |  |             |  | 27          |  |
| Spain          | 343  |  | 614         |  | 946         |  |
| Sweden         | 34   |  | 175         |  | 106         |  |
| Switzerland    | 185  |  | 113         |  | 399         |  |
| United Kingdom | 990  |  | 605         |  | 1,185       |  |
| United States  | 35,922   |  | 33,207      |  | 59,031      |  |
| Total          | Ch\$ 57,498  |  | Ch\$ 64,145 |  | Ch\$ 73,068 |  |

**Credit Review Process**

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

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

Transactions in which the total customer credit risk is more than UF 500,000 (approximately Ch\$9.811 million) require the approval of a credit committee, which includes three directors and our chief executive officer. Transactions in which the total customer credit risk is equal to or less than UF 500,000 may be approved by other executives, depending on the amount involved, as follows:

**Approved by**

Credit committee, including members of the board of directors  
 Chief executive officer, chairman and senior credit risk officer  
 Chief executive officer, chairman or senior credit risk officer (any two of them)  
 Chief executive officer  
 Senior credit risk officers  
 Executive credit risk officers  
 Other credit risk officers  
 Executive vice president of corporate banking  
 Other department heads

**Limit in UF**

up to legal limits  
 up to UF 500,000  
 up to UF 350,000  
 up to UF 225,000  
 up to UF 225,000  
 up to UF 75,000  
 up to UF 50,000  
 up to UF 50,000  
 up to UF 20,000

Other officers

up to UF 10,000

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

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

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

**Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines**

Prior to January 1, 2004, when the Chilean Superintendency of Banks amended its guidelines, banks classified their loan portfolios and determined allowances for loan losses using different guidelines. For a description of the new classifications in effect under the amended guidelines and the categories and allowance percentages under the amended guidelines, see Regulation and Supervision.

**Classification of Loan Portfolio under the Previous Guidelines**

Under the previous guidelines, loans were divided into consumer loans, residential mortgage loans and commercial loans (which included all loans other than consumer loans and residential mortgage loans). In the case of commercial loans, the classification was based on the estimated losses on all loans outstanding to the borrower, as determined by us. In the case of consumer and residential mortgage loans, the extent to which payments were overdue determined the classification. Commercial and consumer loans were rated under the previous guidelines as A, B, B-, C or D, while residential mortgage loans were rated only as A, B or B- (due to collateral).

The allowances required for each category of loans under the previous guidelines were as follows:

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

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

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

the commercial loans outstanding to our 400 largest debtors; or

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

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

According to our internal credit policies, we classified our loans through December 31, 2004 using the previous guidelines. The criteria for determining the range of estimated losses for purposes of the classification of commercial loans was as follows:

- Category A: A borrower's loans were Category A if we had no doubt as to the borrower's ability to repay the loans in a timely manner, except to the extent reflected in the loan's original terms, including all interest due, and the revenues generated from the business of the borrower are sufficient to service the debt. If the borrower's business did not generate the revenues needed for debt service, or if repayment depended on revenues generated by another entity, its loans were not included in this category, even if fully secured.
- Category B: This category included loans outstanding to borrowers who had shown some degree of non-compliance with their obligations under the original conditions of their loans, but whose past financial records and market history indicated that such non-compliance should be temporary and, in any case, should not significantly affect the terms for repayment. This category also included loans to customers involved in economic activities that represented a higher risk for us. Category B was also the highest category for loans outstanding to borrowers whose source of repayment depended on revenues generated by another entity, and loans outstanding to borrowers whose business did not generate the revenues needed for debt service, but only if the loans were fully secured.
- Category B-: Loans included in this category were principally loans outstanding to borrowers who were experiencing financial difficulties and whose operational revenues or liquid assets were insufficient to service the loans and where the security for the loan covered 61% to 95% of the outstanding amount. Also included in this category were loans outstanding to borrowers whose financial history was insufficient or difficult to establish. Loans bearing interest rates that, due to our cost of funds, generate a financial loss of between 5% and 39% of the outstanding amount were also included in this category. Our internal guidelines prohibited us from categorizing as better than B- any loan to a customer for which the loan was currently subject to legal collection proceedings even if the customer's loan was more than fully secured.
- Category C: This category included loans outstanding to borrowers who were experiencing serious financial difficulties and whose operational revenues or liquid assets were insufficient to service the loans and where the security for the loan would cover 21% to 60% of the outstanding amount. Loans bearing interest rates that, due to our cost of funds, generate a financial loss of between 40% and 79% of the outstanding amount were also included in this category. We expected to suffer some degree of loss with respect to loans to borrowers in this category.

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

**Allowances for Loan Losses under the Previous Guidelines**

The Chilean Superintendency of Banks amended its regulations with respect to allowances effective January 1, 2004. Under the previous guidelines, the minimum required allowances for loan losses was the greater of (i) a bank's global allowances for loan losses and (ii) its aggregate individual allowances for loan losses. Additionally, a bank was permitted to maintain voluntary allowances in excess of the required minimum so as to provide additional coverage for potential loan losses. We historically followed the practice of maintaining voluntary allowances.

*Global allowances for loan losses.* Under the previous guidelines, the amount of global allowances for loan losses required to be maintained by a bank was equal to the aggregate amount of its outstanding loans multiplied by the greater of (i) our risk index, as defined below, and (ii) 0.75%.

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

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

The risk index itself was then calculated by dividing (i) the aggregate amount so calculated by (ii) the aggregate amount (*i.e.*, the outstanding principal, whether or not past due, and accrued and unpaid interest) of all evaluated loans.

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

| Consolidated Risk Index |       |
|-------------------------|-------|
| At December 31,         |       |
| 2003 <sup>(1)</sup>     | 2.36% |
| 2004                    | 2.23  |
| 2005                    | 1.72  |
| 2006                    | 1.51  |
| 2007                    | 1.36  |

(1) Calculated under previous guidelines.

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

| Unconsolidated Risk Index |       |
|---------------------------|-------|
| At December 31,           |       |
| 2003 <sup>(1)</sup>       | 2.41% |
| 2004                      | 2.23  |
| 2005                      | 1.70  |
| 2006                      | 1.48  |
| 2007                      | 1.34  |

(1) Calculated under previous guidelines.

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According to the Chilean Superintendency of Banks, the average risk index of all financial institutions in Chile, both foreign and domestic, was 1.58% as of December 31, 2007. At the same date, our average unconsolidated risk index was 1.34%. Our average unconsolidated risk index has improved significantly since 2002 when it was highest as a result of our merger with Banco de A. Edwards that year.

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

*Voluntary allowances for loan losses.* Under the previous guidelines, we followed an allowance policy that included recording voluntary allowances for loan losses beyond what was required by the Chilean Superintendency of Banks, where changes in the portfolio concentrations or economic considerations affecting or reasonably expected to affect the credit payment capacity of borrowers were not adequately addressed through regulatorily mandated allowances. However, under the current guidelines the concept of voluntary allowances for loan losses has been eliminated.

The table below sets forth our allowances for loan losses in accordance with the regulations in effect during each year.

|   | 2003   | 2004         | As of December 31,<br>2005 | 2006         | 2007         |
|---|--|--------------|----------------------------|--------------|--------------|
|   | (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |              |                            |              |              |
| Allowances based on risk index                                  | Ch\$ 171,902   | Ch\$ 174,701 | Ch\$ 154,948               | Ch\$ 155,707 | Ch\$ 161,140 |
| Allowances based on 0.75%                                       | 54,630   | n/a          | n/a                        | n/a          | n/a          |
| Global allowances for loan losses                               | 144,401  | n/a          | n/a                        | n/a          | n/a          |
| Individual allowances for loan losses                           | 40,620   |              |                            |              |              |
| Required minimum allowances                                     | 185,021  | 152,307      | 131,925                    | 133,574      | 140,238      |
| Voluntary allowances  | 23,938   |              |                            |              |              |
| Additional allowances   |  | 22,394       | 23,023                     | 22,133       | 20,902       |
| Total allowances for loan losses                                | Ch\$ 208,959   | Ch\$ 174,701 | Ch\$ 154,948               | Ch\$ 155,707 | Ch\$ 161,140 |
| Total allowances for loan losses as a percentage of total loans | 2.87%  | 2.23%        | 1.72%                      | 1.51%        | 1.36%        |

**Table of Contents****Amended Guidelines**

The Chilean Superintendency of Banks amended its guidelines for the classification of loan portfolios and the calculation and maintenance of allowances effective as of January 1, 2004. As a result, the information presented in the tables below for periods prior to January 1, 2004 has been prepared in accordance with the previous guidelines and information for periods beginning on or after January 1, 2004 has been prepared in accordance with the amended guidelines. For a description of the new classifications in effect under the amended guidelines and the categories and allowance percentages under the amended guidelines, see Regulation and Supervision.

**Analysis of Our Loan Classification**

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

| Category               | As of December 31, 2003                                |                |                            |                | Percentage of Classified Loans |
|------------------------|--|----------------|----------------------------|----------------|--------------------------------|
|                        | Commercial Loans                                       | Consumer Loans | Residential Mortgage Loans | Total Loans    |                                |
|                        | (in millions of constant Ch\$ as of December 31, 2007) |                |                            |                |                                |
| A                      | Ch\$ 2,593,381   | Ch\$ 499,295   | Ch\$ 957,282               | Ch\$ 4,049,958 | 55.97%                         |
| B                      | 2,688,470  | 37,624         | 82,025                     | 2,808,119      | 38.82                          |
| B                      | 209,304  | 9,729          | 24,559                     | 243,592        | 3.37                           |
| C                      | 76,966   | 8,043          |                            | 85,009         | 1.18                           |
| D                      | 41,584   | 5,937          |                            | 47,521         | 0.66                           |
| Total classified loans | Ch\$ 5,609,705   | Ch\$ 560,628   | Ch\$ 1,063,866             | Ch\$ 7,234,199 | 100.00%                        |
| Total loans            | Ch\$ 5,659,493   | Ch\$ 560,628   | Ch\$ 1,063,866             | Ch\$ 7,283,987 |                                |
| Percentage classified  | 99.12%   | 100.00%        | 100.00%                    | 99.32%         |                                |

| Individual Analysis Category | As of December 31, 2004 <sup>(1)</sup>                 |                |                            |                | Percentage of Classified Loans |
|------------------------------|--|----------------|----------------------------|----------------|--------------------------------|
|                              | Commercial Loans                                       | Consumer Loans | Residential Mortgage Loans | Total Loans    |                                |
|                              | (in millions of constant Ch\$ as of December 31, 2007) |                |                            |                |                                |
| A1                           | Ch\$ 10,250  | Ch\$           | Ch\$                       | Ch\$ 10,250    | 0.18%                          |
| A2                           | 1,727,494  | 17,023         | 57,315                     | 1,801,832      | 31.38                          |
| A3                           | 1,503,289  | 14,093         | 36,416                     | 1,553,798      | 27.06                          |
| B                            | 1,825,201  | 31,657         | 68,728                     | 1,925,586      | 33.54                          |
| C1                           | 209,552  | 6,926          | 10,696                     | 227,174        | 3.96                           |
| C2                           | 67,927   | 981            | 4,767                      | 73,675         | 1.28                           |
| C3                           | 31,504   | 374            | 1,136                      | 33,014         | 0.57                           |
| C4                           | 55,832   | 423            | 1,076                      | 57,331         | 1.00                           |
| D1                           | 39,541   | 284            | 102                        | 39,927         | 0.70                           |
| D2                           | 18,200   | 557            | 349                        | 19,106         | 0.33                           |
| Subtotal classified loans    | Ch\$ 5,488,790   | Ch\$ 72,318    | Ch\$ 180,585               | Ch\$ 5,741,693 | 100.00%                        |

(1) This information has been prepared in accordance with the amended guidelines.

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| Group<br>Analysis<br>Category | As of December 31, 2004 <sup>(1)</sup>                 |                   |                                  |                | Percentage<br>of Classified<br>Loans |
|-------------------------------|--|-------------------|----------------------------------|----------------|--------------------------------------|
|                               | Commercial<br>Loans                                    | Consumer<br>Loans | Residential<br>Mortgage<br>Loans | Total<br>Loans |                                      |
|                               | (in millions of constant Ch\$ as of December 31, 2007) |                   |                                  |                |                                      |
| A                             | Ch\$ 171,911   | Ch\$ 650,672      | Ch\$ 1,039,749                   | Ch\$ 1,862,332 | 89.94%                               |
| B                             | 52,322   | 43,764            | 53,322                           | 149,408        | 7.21                                 |
| B                             | 12,550   | 9,813             | 19,698                           | 42,061         | 2.03                                 |
| C                             | 1,875  | 7,475             |                                  | 9,350          | 0.45                                 |
| D                             | 1,602  | 6,116             |                                  | 7,718          | 0.37                                 |
| Subtotal classified loans     | Ch\$ 240,260   | Ch\$ 717,840      | Ch\$ 1,112,769                   | Ch\$ 2,070,869 | 100.00%                              |
| Total classified loans        | Ch\$ 5,729,050   | Ch\$ 790,158      | Ch\$ 1,293,354                   | Ch\$ 7,812,562 |                                      |
| Total loans                   | Ch\$ 5,742,544   | Ch\$ 790,158      | Ch\$ 1,293,354                   | Ch\$ 7,826,056 |                                      |
| Percentage classified         | 99.77%   | 100.00%           | 100.00%                          | 99.83%         |                                      |

(1) This information has been prepared in accordance with the amended guidelines.

| Individual<br>Analysis<br>Category | As of December 31, 2005 <sup>(1)</sup>                 |                   |                                  |                | Percentage<br>of Classified<br>Loans |
|------------------------------------|--|-------------------|----------------------------------|----------------|--------------------------------------|
|                                    | Commercial<br>Loans                                    | Consumer<br>Loans | Residential<br>Mortgage<br>Loans | Total<br>Loans |                                      |
|                                    | (in millions of constant Ch\$ as of December 31, 2007) |                   |                                  |                |                                      |
| A1                                 | Ch\$ 13,932  | Ch\$              | Ch\$                             | Ch\$ 13,932    | 0.21%                                |
| A2                                 | 1,914,547  | 19,490            | 56,717                           | 1,990,754      | 30.12                                |
| A3                                 | 1,906,492  | 14,509            | 35,241                           | 1,956,242      | 29.60                                |
| B                                  | 2,160,689  | 44,655            | 84,383                           | 2,289,727      | 34.64                                |
| C1                                 | 195,657  | 7,715             | 9,618                            | 212,990        | 3.22                                 |
| C2                                 | 45,024   | 1,656             | 5,229                            | 51,909         | 0.79                                 |
| C3                                 | 17,261   | 439               | 1,276                            | 18,976         | 0.29                                 |
| C4                                 | 34,901   | 412               | 445                              | 35,758         | 0.54                                 |
| D1                                 | 24,077   | 412               | 453                              | 24,942         | 0.38                                 |
| D2                                 | 13,223   | 870               | 73                               | 14,166         | 0.21                                 |
| Subtotal classified loans          | Ch\$ 6,325,803   | Ch\$ 90,158       | Ch\$ 193,435                     | Ch\$ 6,609,396 | 100.00%                              |

(1) This information has been prepared in accordance with the amended guidelines.

| Group<br>Analysis<br>Category | As of December 31, 2005 <sup>(1)</sup>                 |                   |                                  |                | Percentage<br>of Classified<br>Loans |
|-------------------------------|--|-------------------|----------------------------------|----------------|--------------------------------------|
|                               | Commercial<br>Loans                                    | Consumer<br>Loans | Residential<br>Mortgage<br>Loans | Total<br>Loans |                                      |
|                               | (in millions of constant Ch\$ as of December 31, 2007) |                   |                                  |                |                                      |
| A                             | Ch\$ 165,488   | Ch\$ 789,114      | Ch\$ 1,220,522                   | Ch\$ 2,175,124 | 91.57%                               |
| B                             | 53,091   | 43,598            | 46,673                           | 143,362        | 6.03                                 |
| B-                            | 9,928  | 11,431            | 16,020                           | 37,379         | 1.57                                 |
| C                             | 1,326  | 9,295             |                                  | 10,621         | 0.45                                 |
| D                             | 885  | 8,229             |                                  | 9,114          | 0.38                                 |

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|                           |                |              |                |                |         |
|---------------------------|----------------|--------------|----------------|----------------|---------|
| Subtotal classified loans | Ch\$ 230,718   | Ch\$ 861,667 | Ch\$ 1,283,215 | Ch\$ 2,375,600 | 100.00% |
| Total classified loans    | Ch\$ 6,556,521 | Ch\$ 951,825 | Ch\$ 1,476,650 | Ch\$ 8,984,996 |         |
| Total loans               | Ch\$ 6,569,763 | Ch\$ 951,825 | Ch\$ 1,476,650 | Ch\$ 8,998,238 |         |
| Percentage classified     | 99.80%         | 100.00%      | 100.00%        | 99.85%         |         |

(1) This information has been prepared in accordance with the amended guidelines.

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| Individual<br>Analysis<br>Category | As of December 31, 2006 <sup>(1)</sup>                 |                   |                                  |                | Percentage<br>of Classified<br>Loans |
|------------------------------------|--|-------------------|----------------------------------|----------------|--------------------------------------|
|                                    | Commercial<br>Loans                                    | Consumer<br>Loans | Residential<br>Mortgage<br>Loans | Total<br>Loans |                                      |
|                                    | (in millions of constant Ch\$ as of December 31, 2007) |                   |                                  |                |                                      |
| A1                                 | Ch\$ 161,255   | Ch\$ 2            | Ch\$                             | Ch\$ 161,257   | 2.12%                                |
| A2                                 | 2,193,272  | 16,232            | 51,257                           | 2,260,761      | 29.89                                |
| A3                                 | 2,230,167  | 14,110            | 27,695                           | 2,271,972      | 30.04                                |
| B                                  | 2,396,156  | 73,233            | 85,445                           | 2,554,834      | 33.78                                |
| C1                                 | 175,761  | 12,434            | 9,729                            | 197,924        | 2.62                                 |
| C2                                 | 45,141   | 1,771             | 4,148                            | 51,060         | 0.68                                 |
| C3                                 | 12,034   | 638               | 701                              | 13,373         | 0.18                                 |
| C4                                 | 20,417   | 391               | 387                              | 21,195         | 0.28                                 |
| D1                                 | 18,406   | 391               | 237                              | 19,034         | 0.25                                 |
| D2                                 | 10,642   | 1,258             | 48                               | 11,948         | 0.16                                 |
| Subtotal classified loans          | Ch\$ 7,263,251   | Ch\$ 120,460      | Ch\$ 179,647                     | Ch\$ 7,563,358 | 100.00%                              |

(1) This information has been prepared in accordance with the amended guidelines.

| Group<br>Analysis<br>Category | As of December 31, 2006 <sup>(1)</sup>                 |                   |                                  |                 | Percentage<br>of Classified<br>Loans |
|-------------------------------|--|-------------------|----------------------------------|-----------------|--------------------------------------|
|                               | Commercial<br>Loans                                    | Consumer<br>Loans | Residential<br>Mortgage<br>Loans | Total<br>Loans  |                                      |
|                               | (in millions of constant Ch\$ as of December 31, 2007) |                   |                                  |                 |                                      |
| A                             | Ch\$ 106,053   | Ch\$ 904,865      | Ch\$ 1,427,763                   | Ch\$ 2,438,681  | 90.20%                               |
| B                             | 57,679   | 84,429            | 48,705                           | 190,813         | 7.06                                 |
| B-                            | 9,972  | 20,035            | 13,730                           | 43,737          | 1.62                                 |
| C                             | 1,620  | 16,330            |                                  | 17,950          | 0.66                                 |
| D                             | 730  | 11,686            |                                  | 12,416          | 0.46                                 |
| Subtotal classified loans     | Ch\$ 176,054   | Ch\$ 1,037,345    | Ch\$ 1,490,198                   | Ch\$ 2,703,597  | 100.00%                              |
| Total classified loans        | Ch\$ 7,439,305   | Ch\$ 1,157,805    | Ch\$ 1,669,845                   | Ch\$ 10,266,955 |                                      |
| Total loans                   | Ch\$ 7,514,262   | Ch\$ 1,157,805    | Ch\$ 1,669,845                   | Ch\$ 10,341,912 |                                      |
| Percentage classified         | 99.00%   | 100.00%           | 100.00%                          | 99.28%          |                                      |

(1) This information has been prepared in accordance with the amended guidelines.

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| Individual<br>Analysis<br>Category | As of December 31, 2007 <sup>(1)</sup>                 |                   |                                  |                | Percentage<br>of Classified<br>Loans |
|------------------------------------|--|-------------------|----------------------------------|----------------|--------------------------------------|
|                                    | Commercial<br>Loans                                    | Consumer<br>Loans | Residential<br>Mortgage<br>Loans | Total<br>Loans |                                      |
|                                    | (in millions of constant Ch\$ as of December 31, 2007) |                   |                                  |                |                                      |
| A1                                 | Ch\$ 198,936   | Ch\$              | Ch\$                             | Ch\$ 198,936   | 2.30%                                |
| A2                                 | 2,838,317  | 15,071            | 49,367                           | 2,902,755      | 33.54                                |
| A3                                 | 2,325,095  | 12,575            | 28,215                           | 2,365,885      | 27.34                                |
| B                                  | 2,667,045  | 83,846            | 122,224                          | 2,873,115      | 33.20                                |
| C1                                 | 172,883  | 15,208            | 11,959                           | 200,050        | 2.31                                 |
| C2                                 | 51,204   | 1,707             | 4,176                            | 57,087         | 0.66                                 |
| C3                                 | 10,121   | 668               | 473                              | 11,262         | 0.13                                 |
| C4                                 | 18,013   | 531               | 487                              | 19,031         | 0.22                                 |
| D1                                 | 8,704  | 404               | 132                              | 9,240          | 0.11                                 |
| D2                                 | 15,200   | 945               | 51                               | 16,196         | 0.19                                 |
| Subtotal classified loans          | Ch\$ 8,305,518   | Ch\$ 130,955      | Ch\$ 217,084                     | Ch\$ 8,653,557 | 100.00%                              |

(1) This information has been prepared in accordance with the amended guidelines.

| Group<br>Analysis<br>Category | As of December 31, 2007 <sup>(1)</sup>                 |                   |                                  |                 | Percentage<br>of Classified<br>Loans |
|-------------------------------|--|-------------------|----------------------------------|-----------------|--------------------------------------|
|                               | Commercial<br>Loans                                    | Consumer<br>Loans | Residential<br>Mortgage<br>Loans | Total<br>Loans  |                                      |
|                               | (in millions of constant Ch\$ as of December 31, 2007) |                   |                                  |                 |                                      |
| A                             | Ch\$ 177,580   | Ch\$ 993,803      | Ch\$ 1,686,398                   | Ch\$ 2,857,781  | 90.58%                               |
| B                             | 80,780   | 89,522            | 52,261                           | 222,563         | 7.05                                 |
| B-                            | 7,924  | 19,870            | 14,328                           | 42,122          | 1.34                                 |
| C                             | 2,013  | 16,216            |                                  | 18,229          | 0.58                                 |
| D                             | 552  | 13,621            |                                  | 14,173          | 0.45                                 |
| Subtotal classified loans     | Ch\$ 268,849   | Ch\$ 1,133,032    | Ch\$ 1,752,987                   | Ch\$ 3,154,868  | 100.00%                              |
| Total classified loans        | Ch\$ 8,574,367   | Ch\$ 1,263,987    | Ch\$ 1,970,071                   | Ch\$ 11,808,425 |                                      |
| Total loans                   | Ch\$ 8,579,868   | Ch\$ 1,263,987    | Ch\$ 1,970,071                   | Ch\$ 11,813,926 |                                      |
| Percentage classified         | 99.94%   | 100.00%           | 100.00%                          | 99.95%          |                                      |

(1) This information has been prepared in accordance with the amended guidelines.

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

Interest and indexation readjustments from overdue loans are only recognized when and to the extent effectively received. Overdue loans are classified in groups of one to 29 days overdue, 30 to 89 days overdue, and 90 or more days overdue, or past due loans.

Under the previous guidelines, past due loans were required to be covered by individual allowances for loan losses equivalent to 100% of any unsecured portion thereof, but only if, and to the extent that, the aggregate of all allowances for loan losses exceeded global allowance for loan losses. The concept of individual allowances has been eliminated by the amended regulations. See Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines Allowances for Loan Losses under the Previous Guidelines Individual Allowances for Loan Losses.

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

|                                      | <b>Domestic Loans</b>   |                       |                       |                       |                        |
|--------------------------------------|---|-----------------------|-----------------------|-----------------------|------------------------|
|                                      | <b>As of December 31,</b>                                     |                       |                       |                       |                        |
|                                      | <b>2003</b>   | <b>2004</b>           | <b>2005</b>           | <b>2006</b>           | <b>2007</b>            |
|                                      | <b>(in millions of constant Ch\$ as of December 31, 2007)</b> |                       |                       |                       |                        |
| Current                              | Ch\$ 6,869,752  | Ch\$ 7,361,977        | Ch\$ 8,644,541        | Ch\$ 9,887,819        | Ch\$ 11,416,446        |
| Overdue 1-29 days                    | 23,960  | 31,760                | 49,639                | 29,209                | 68,210                 |
| Overdue 30-89 days                   | 15,852  | 13,162                | 6,813                 | 16,399                | 15,845                 |
| Overdue 90 days or more ( past due ) | 122,851   | 96,205                | 78,218                | 66,250                | 61,327                 |
| <b>Total loans</b>                   | <b>Ch\$ 7,032,415</b>   | <b>Ch\$ 7,503,104</b> | <b>Ch\$ 8,779,211</b> | <b>Ch\$ 9,999,677</b> | <b>Ch\$ 11,561,828</b> |

|                                      | <b>Foreign Loans</b>  |                     |                     |                     |                     |
|--------------------------------------|---|---------------------|---------------------|---------------------|---------------------|
|                                      | <b>As of December 31,</b>                                     |                     |                     |                     |                     |
|                                      | <b>2003</b>   | <b>2004</b>         | <b>2005</b>         | <b>2006</b>         | <b>2007</b>         |
|                                      | <b>(in millions of constant Ch\$ as of December 31, 2007)</b> |                     |                     |                     |                     |
| Current                              | Ch\$ 251,572  | Ch\$ 322,952        | Ch\$ 219,007        | Ch\$ 342,235        | Ch\$ 252,098        |
| Overdue 1-29 days                    |   |                     |                     |                     |                     |
| Overdue 30-89 days                   |   |                     |                     |                     |                     |
| Overdue 90 days or more ( past due ) |   |                     | 20                  |                     |                     |
| <b>Total loans</b>                   | <b>Ch\$ 251,572</b>   | <b>Ch\$ 322,952</b> | <b>Ch\$ 219,027</b> | <b>Ch\$ 342,235</b> | <b>Ch\$ 252,098</b> |

|                                      | <b>Total Loans</b>  |                       |                       |                        |                        |
|--------------------------------------|---|-----------------------|-----------------------|------------------------|------------------------|
|                                      | <b>As of December 31,</b>                                     |                       |                       |                        |                        |
|                                      | <b>2003</b>   | <b>2004</b>           | <b>2005</b>           | <b>2006</b>            | <b>2007</b>            |
|                                      | <b>(in millions of constant Ch\$ as of December 31, 2007)</b> |                       |                       |                        |                        |
| Current                              | Ch\$ 7,121,324  | Ch\$ 7,684,929        | Ch\$ 8,863,548        | Ch\$ 10,230,054        | Ch\$ 11,668,544        |
| Overdue 1-29 days                    | 23,960  | 31,760                | 49,639                | 29,209                 | 68,210                 |
| Overdue 30-89 days                   | 15,852  | 13,162                | 6,813                 | 16,399                 | 15,845                 |
| Overdue 90 days or more ( past due ) | 122,851   | 96,205                | 78,238                | 66,250                 | 61,327                 |
| <b>Total loans</b>                   | <b>Ch\$ 7,283,987</b>   | <b>Ch\$ 7,826,056</b> | <b>Ch\$ 8,998,238</b> | <b>Ch\$ 10,341,912</b> | <b>Ch\$ 11,813,926</b> |

|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| Overdue loans expressed as a percentage of total loans | 2.23% | 1.80% | 1.50% | 1.08% | 1.23% |
|  | 1.69% | 1.23% | 0.87% | 0.64% | 0.52% |

Past due loans as a percentage  
of total loans

We suspend the accrual of interest on any loan when there is a high risk of unrecoverability or from the first day when it becomes past due. The amount of interest that would have been recorded on overdue loans if they had been accruing interest was Ch\$3,098 million for the year ended December 31, 2007.

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

|              | 2003   | 2004              | As of December 31, |                   | 2007              |
|--------------|--|-------------------|--------------------|-------------------|-------------------|
|              |  |                   | 2005               | 2006              |                   |
|              | (in millions of constant Ch\$ as of December 31, 2007) |                   |                    |                   |                   |
| Ch\$         | Ch\$ 5,008   | Ch\$ 4,783        | Ch\$ 4,514         | Ch\$ 5,126        | Ch\$ 4,582        |
| UF           | 288  | 591               | 169                |                   |                   |
| <b>Total</b> | <b>Ch\$ 5,296</b>                                      | <b>Ch\$ 5,374</b> | <b>Ch\$ 4,683</b>  | <b>Ch\$ 5,126</b> | <b>Ch\$ 4,582</b> |

The amount of interest that we would have recorded on these loans for the year ended December 31, 2007 if these loans had been earning a market interest rate was Ch\$263 million.

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

|                                | 2005   | As of December 31, |  | 2007        |
|--------------------------------|--|--------------------|--|-------------|
|                                |  | 2006               |  |             |
|                                | (in millions of constant Ch\$ as of December 31, 2007) |                    |  |             |
| Total other restructured loans | Ch\$ 79,142  | Ch\$ 73,879        |  | Ch\$ 80,233 |

During the year ended December 31, 2007, interest recorded in income on these loans amounted to Ch\$4,178 million.

**Table of Contents****Analysis of Substandard Loans and Amounts Past Due**

The following table analyzes our substandard loans, past due loans and allowances for loan losses existing at the dates indicated. Loans for years prior to 2004 in the table below were analyzed in accordance with the previous guidelines, and loans for the subsequent years were analyzed in accordance with the amended guidelines. We have no restructured loans (troubled debt restructurings as defined in Statement of Financial Accounting Standards, or SFAS, No. 15 published by the Financial Accounting Standards Board, or FASB) that are not included in the following tables.

|  | 2003   | 2004           | As of December 31,<br>2005 |                 | 2006            | 2007 |
|--|--|----------------|----------------------------|-----------------|-----------------|------|
|  | (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |                |                            |                 |                 |      |
| Total loans                                      | Ch\$ 7,283,987   | Ch\$ 7,826,056 | Ch\$ 8,998,238             | Ch\$ 10,341,912 | Ch\$ 11,813,926 |      |
| Substandard loans <sup>(1)</sup>                 | Ch\$ 376,122   | Ch\$ 509,356   | Ch\$ 415,855               | Ch\$ 388,637    | Ch\$ 387,390    |      |
| Substandard loans as a percentage of total Loans | 5.16%  | 6.51%          | 4.62%                      | 3.76%           | 3.28%           |      |
| Amounts past due <sup>(2)</sup>                  |  |                |                            |                 |                 |      |
| To the extent secured <sup>(3)</sup>             | Ch\$ 82,232  | Ch\$ 64,978    | Ch\$ 55,107                | Ch\$ 45,299     | Ch\$ 35,666     |      |
| To the extent unsecured                          | 40,619   | 31,227         | 23,131                     | 20,951          | 25,661          |      |
| Total amount past due                            | Ch\$ 122,851   | Ch\$ 96,205    | Ch\$ 78,238                | Ch\$ 66,250     | Ch\$ 61,327     |      |
| Amounts past due as a percentage of total loans  | 1.69%  | 1.23%          | 0.87%                      | 0.64%           | 0.52%           |      |
| To the extent secured <sup>(2)</sup>             | 1.13   | 0.83           | 0.61                       | 0.44            | 0.30            |      |
| To the extent unsecured                          | 0.56   | 0.40           | 0.26                       | 0.20            | 0.22            |      |
| Allowances for loan losses as a percentage of:   |  |                |                            |                 |                 |      |
| Total loans                                      | 2.87   | 2.23           | 1.72                       | 1.51            | 1.36            |      |
| Total loans excluding contingent loans           | 3.07   | 2.42           | 1.89                       | 1.66            | 1.53            |      |
| Total amounts past due                           | 170.09   | 181.59         | 198.05                     | 235.03          | 262.76          |      |
| Total amounts past due-unsecured                 | 514.43%  | 559.46%        | 669.87%                    | 743.21%         | 627.96%         |      |

- (1) For periods prior to 2004, substandard loans include loans classified into categories B-, C and D. For periods after 2004, individually evaluated loans are considered substandard when they are classified into categories C1 to D2, and group-evaluated loans are considered substandard when they are assigned allowances for loan losses greater than 20%.
- (2) In accordance with Chilean regulations, past due loans are loans that are 90 days or more overdue on any payments of principal or interest.
- (3) Security generally consists of mortgages on real estate, pledges of marketable securities, letters of credit or cash.

**Table of Contents****Analysis of Allowances for Loan Losses**

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

|  | 2003   | 2004         | As of December 31,<br>2005 |              | 2006         | 2007 |
|--|--|--------------|----------------------------|--------------|--------------|------|
|  | (in millions of constant Ch\$ as of December 31, 2007) |              |                            |              |              |      |
| Allowances for loan losses at beginning of period                          | Ch\$ 254,105   | Ch\$ 208,959 | Ch\$ 174,701               | Ch\$ 154,948 | Ch\$ 155,707 |      |
| Charge-offs  | (111,940)  | (112,536)    | (73,845)                   | (65,161)     | (71,564)     |      |
| Allowances established   | 71,687   | 85,280       | 62,071                     | 69,634       | 87,952       |      |
| Allowances released <sup>(1)</sup>   | (1,694)  | (1,769)      | (1,745)                    | (546)        | (209)        |      |
| Price-level restatement <sup>(2)</sup>                                     | (3,199)  | (5,233)      | (6,234)                    | (3,168)      | (10,746)     |      |
| Allowances for loan losses at end of period                                | Ch\$ 208,959   | Ch\$ 174,701 | Ch\$ 154,948               | Ch\$ 155,707 | Ch\$ 161,140 |      |
| Ratio of charge-offs to average loans                                      | 1.53%  | 1.49%        | 0.90%                      | 0.68%        | 0.67%        |      |
| Allowances for loan losses at end of period as a percentage of total loans | 2.87%  | 2.23%        | 1.72%                      | 1.51%        | 1.36%        |      |

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

(2) Reflects the effect of inflation on the allowances for loan losses at the beginning of each period, adjusted to constant pesos as of December 31, 2007.

As a result of an improvement in economic conditions in 2005 and in 2006, and a more effective credit and collection policy, allowances and the risk index decreased in both years. Based on the information we have available about our debtors, we believe that our allowances for loan losses are sufficient to cover known potential losses and losses inherent in a loan portfolio of this size and nature.

As a result of stable economic conditions in 2007 and an effective credit and collection policy, allowance as a percentage of total loans decreased during the year, although at a lower rate than prior years when economic conditions were more favorable, while the risk index remained virtually unchanged.

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

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

|                            | 2003   | Year ended December 31,<br>2004 |             | 2005        | 2006        | 2007 |
|----------------------------|--|---------------------------------|-------------|-------------|-------------|------|
|                            | (in millions of constant Ch\$ as of December 31, 2007) |                                 |             |             |             |      |
| Consumer loans             | Ch\$ 22,303  | Ch\$ 19,175                     | Ch\$ 21,330 | Ch\$ 24,838 | Ch\$ 39,510 |      |
| Residential mortgage loans | 17,506   | 13,558                          | 14,554      | 10,510      | 3,325       |      |
| Commercial loans           | 69,326   | 76,996                          | 37,180      | 28,843      | 27,308      |      |

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|                   |              |              |             |             |             |
|-------------------|--------------|--------------|-------------|-------------|-------------|
| Leasing contracts | 2,805        | 2,807        | 765         | 947         | 1,421       |
| Foreign loans     |              |              | 16          | 23          |             |
| Total             | Ch\$ 111,940 | Ch\$ 112,536 | Ch\$ 73,845 | Ch\$ 65,161 | Ch\$ 71,564 |

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

|  | Year ended December 31,                                |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|
|  | 2003   | 2004        | 2005        | 2006        | 2007        |
|  | (in millions of constant Ch\$ as of December 31, 2007) |             |             |             |             |
| Consumer loans   | Ch\$ 7,492   | Ch\$ 9,675  | Ch\$ 12,353 | Ch\$ 9,011  | Ch\$ 427    |
| Residential mortgage loans                                     | 3,741  | 4,838       | 7,014       | 7,453       | 6,554       |
| Commercial loans   | 15,290   | 17,704      | 16,262      | 13,675      | 27,757      |
| Leasing contracts  | 1,205  |             |             |             |             |
| Investments  | 932  |             |             |             |             |
| Subtotal   | 28,660   | 32,217      | 35,629      | 30,139      | 34,738      |
| Recoveries and sales of loans reacquired from the Central Bank | 906  | 6,108       | 542         | 40          | 386         |
| Total  | Ch\$ 29,566  | Ch\$ 38,325 | Ch\$ 36,171 | Ch\$ 30,179 | Ch\$ 35,124 |

**Allocation of Allowances for Loan Losses**

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

|                            | 2003                            |   |   |   | 2004                            |   |   |   |
|----------------------------|---------------------------------|---|---|---|---------------------------------|---|---|---|
|                            | Allowance amount <sup>(1)</sup> | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Loans in category as percentage of total loans <sup>(2)</sup> | Allowance amount <sup>(1)</sup> | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Loans in category as percentage of total loans <sup>(2)</sup> |
| Commercial loans           | Ch\$ 140,665                    | 2.49%   | 1.93%   | 77.70%  | 106,671                         | 1.86%   | 1.36%   | 73.37%  |
| Consumer loans             | 20,883                          | 3.72  | 0.29  | 7.70  | 26,666                          | 3.37  | 0.34  | 10.10   |
| Residential mortgage loans | 7,137                           | 0.67  | 0.10  | 14.60   | 7,128                           | 0.55  | 0.09  | 16.53   |
| Total allocated allowances | Ch\$ 168,685                    | 2.32%   | 2.32%   | 100.00%   | 140,465                         | 1.79%   | 1.79%   | 100.00%   |
| Leasing contracts          | 9,633                           | 0.13  | 0.13  |   | 6,658                           | 0.09  | 0.09  |   |
| Foreign loans              | 6,703                           | 0.09  | 0.09  |   | 5,184                           | 0.07  | 0.07  |   |
| Voluntary allowances       | 23,938                          | 0.33  | 0.33  |   | 22,394                          | 0.28  | 0.28  |   |
| Total allowances           | Ch\$ 208,959                    | 2.87%   | 2.87%   |   | 174,701                         | 2.23%   | 2.23%   |   |

|                            | 2005                            |   |   |   |
|----------------------------|---------------------------------|---|---|---|
|                            | Allowance amount <sup>(1)</sup> | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Loans in category as percentage of total loans <sup>(2)</sup> |
| Commercial loans           | Ch\$ 85,013                     | 1.29%   | 0.94%   | 73.01%  |
| Consumer loans             | 28,097                          | 2.95  | 0.31  | 10.58   |
| Residential mortgage loans | 10,848                          | 0.73  | 0.13  | 16.41   |

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|                                      |              |       |       |         |
|--------------------------------------|--------------|-------|-------|---------|
| Total allocated allowances           | Ch\$ 123,958 | 1.38% | 1.38% | 100.00% |
| Leasing contracts                    | 6,454        | 0.07  | 0.07  |         |
| Foreign loans                        | 1,513        | 0.02  | 0.02  |         |
| Additional allowances <sup>(3)</sup> | 23,023       | 0.25  | 0.25  |         |
| Total allowances                     | Ch\$ 154,948 | 1.72% | 1.72% |         |

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|                                      | 2006                            |   |   |   | 2007                            |   |   |   |
|--------------------------------------|---------------------------------|---|---|---|---------------------------------|---|---|---|
|                                      | Allowance amount <sup>(1)</sup> | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Loans in category as percentage of total loans <sup>(2)</sup> | Allowance amount <sup>(1)</sup> | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Loans in category as percentage of total loans <sup>(2)</sup> |
| Commercial loans                     | Ch\$ 75,229                     | 1.00%   | 0.73%   | 72.84%  | Ch\$ 73,840                     | 0.86%   | 0.62%   | 72.63%  |
| Consumer loans                       | 39,396                          | 3.40  | 0.38  | 11.12   | 46,437                          | 3.67  | 0.39  | 10.70   |
| Residential mortgage loans           | 10,867                          | 0.65  | 0.11  | 16.04   | 11,403                          | 0.58  | 0.10  | 16.67   |
| Total allocated allowances           | Ch\$ 125,492                    | 1.22%   | 1.22%   | 100.00%   | Ch\$ 131,680                    | 1.11%   | 1.11%   | 100.00%   |
| Leasing contracts                    | 6,703                           | 0.06  | 0.06  |   | 8,038                           | 0.07  | 0.07  |   |
| Foreign loans                        | 1,379                           | 0.01  | 0.01  |   | 520                             | 0.00  | 0.00  |   |
| Additional allowances <sup>(3)</sup> | 22,133                          | 0.22  | 0.22  |   | 20,902                          | 0.18  | 0.18  |   |
| Total allowances                     | Ch\$ 155,707                    | 1.51%   | 1.51%   |   | Ch\$ 161,140                    | 1.36%   | 1.36%   |   |

(1) In millions of constant pesos as of December 31, 2007.

(2) Based on our loan classification.

(3) Due to regulations on additional allowances included in Circular No. 3,246 of the Superintendency of Banks and Financial Institutions, we have redesignated our voluntary allowances to the additional allowances category in conformity with the new regulation.

The following table sets forth our charge-offs for 2005, 2006 and 2007 by major economic sector and provides further detail of charge-offs that have already been described in the previous discussion of allowances for loan losses:

|  | Year ended December 31, |             |             |
|--|-------------------------|-------------|-------------|
|  | 2005                    | 2006        | 2007        |
| (in millions of constant Ch\$ as of December 31, 2007) |                         |             |             |
| Commercial:  |                         |             |             |
| Agriculture  | Ch\$ 5,110              | Ch\$ 1,137  | Ch\$ 2,718  |
| Mining   | 2,673                   | 52          | 925         |
| Manufacturing  | 1,833                   | 2,055       | 2,831       |
| Construction   | 1,425                   | 6,111       | 6,255       |
| Commerce   | 11,688                  | 2,926       | 7,687       |
| Transport  | 425                     | 521         | 1,005       |
| Financial services                                     | 2,905                   | 12,061      | 4,165       |
| Community  | 11,121                  | 3,980       | 1,722       |
| Subtotal:  | Ch\$ 37,180             | Ch\$ 28,843 | Ch\$ 27,308 |
| Consumer loans   | 21,330                  | 24,838      | 39,510      |
| Residential mortgage loans                             | 14,554                  | 10,510      | 3,325       |
| Leasing contracts                                      | 765                     | 947         | 1,421       |
| Foreign loans  | 16                      | 23          |             |
| Total  | Ch\$ 73,845             | Ch\$ 65,161 | Ch\$ 71,564 |



**Table of Contents****Composition of Deposits and Other Commitments**

The following table sets forth the composition of our deposits and similar commitments at December 31, 2005, 2006 and 2007. See Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities for the average rate paid on each of the following deposit categories.

|                                  | As of December 31,                                     |                |                |
|----------------------------------|--|----------------|----------------|
|                                  | 2005   | 2006           | 2007           |
|                                  | (in millions of constant Ch\$ as of December 31, 2007) |                |                |
| Current accounts                 | Ch\$ 1,662,616   | Ch\$ 1,867,656 | Ch\$ 1,961,430 |
| Other demand liabilities         | 355,867  | 380,130        | 403,093        |
| Savings accounts                 | 151,682  | 147,573        | 139,127        |
| Time deposits                    | 4,906,999  | 6,069,615      | 6,412,047      |
| Other commitments <sup>(1)</sup> | 175,431  | 160,349        | 147,374        |
| Total                            | Ch\$ 7,252,595   | Ch\$ 8,625,323 | Ch\$ 9,063,071 |

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

**Maturity of Deposits**

The following table sets forth information regarding the currency and maturity of our deposits at December 31, 2007, expressed in percentages. UF-denominated deposits are similar to Chilean peso-denominated deposits in all respects, except that the principal is readjusted periodically based on variations in the Consumer Price Index.

|  | Ch\$    | UF      | Foreign<br>Currency | Total   |
|--|---------|---------|---------------------|---------|
| Demand deposits                            | 38.70%  | 0.35%   | 32.34%              | 27.72%  |
| Savings accounts                           |         | 5.76    |                     | 1.54    |
| Time deposits:                             |         |         |                     |         |
| Maturing within three months               | 47.42   | 35.14   | 64.68               | 46.20   |
| Maturing after three but within six months | 8.42    | 30.69   | 2.78                | 13.69   |
| Maturing after six but within 12 months    | 5.12    | 16.21   | 0.20                | 7.49    |
| Maturing after 12 months                   | 0.34    | 11.85   |                     | 3.36    |
| Total time deposits                        | 61.30   | 93.89   | 67.66               | 70.74   |
| Total deposits                             | 100.00% | 100.00% | 100.00%             | 100.00% |

The following table sets forth information regarding the currency and maturity of deposits in excess of U.S.\$100,000 as of December 31, 2007:

|  | Ch\$   | UF           | Foreign<br>Currency | Total          |
|--|--|--------------|---------------------|----------------|
|  | (in millions of constant Ch\$ as of December 31, 2007) |              |                     |                |
| Time deposits:                             |  |              |                     |                |
| Maturing within three months               | Ch\$ 1,984,698   | Ch\$ 379,999 | Ch\$ 921,140        | Ch\$ 3,285,837 |
| Maturing after three but within six months | 467,471  | 28,099       | 756,885             | 1,252,455      |
| Maturing after six but within 12 months    | 283,783  | 1,509        | 383,033             | 668,325        |

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|                          |                |              |                |                |
|--------------------------|----------------|--------------|----------------|----------------|
| Maturing after 12 months | 19,384         |              | 286,143        | 305,527        |
| Total time deposits      | Ch\$ 2,755,336 | Ch\$ 409,607 | Ch\$ 2,347,201 | Ch\$ 5,512,144 |

**Table of Contents****Minimum Capital Requirements**

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

|   | 2005   | As of December 31,<br>2006 | 2007         |
|---|--|----------------------------|--------------|
|   | (in millions of constant Ch\$ as of December 31, 2007) |                            |              |
| Banco de Chile's regulatory capital             | Ch\$ 651,772   | Ch\$ 686,697               | Ch\$ 809,105 |
| Minimum regulatory capital required             | (354,107)  | (414,409)                  | (441,346)    |
| Excess over minimum regulatory capital required | Ch\$ 297,665   | Ch\$ 272,288               | Ch\$ 367,759 |

**Short-term Borrowings**

Our short-term borrowings (other than deposits) totaled Ch\$446,624 million as of December 31, 2005, Ch\$742,241 million as of December 31, 2006 and Ch\$583,527 million as of December 31, 2007.

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

|   | 2005   |   | For the year ended December 31,<br>2006 |   | 2007                |   |
|---|--|---|---|---|---------------------|---|
|   | Year-End<br>Balance  | Weighted<br>Average<br>Nominal<br>Interest Rate | Year-End<br>Balance                     | Weighted<br>Average<br>Nominal<br>Interest Rate | Year-End<br>Balance | Weighted<br>Average<br>Nominal<br>Interest Rate |
|   | (in millions of constant Ch\$ as of December 31, 2007, except for rate data) |   |   |   |                     |   |
| Investments sold under agreements to repurchase | Ch\$ 296,891   | 4.36%   | Ch\$ 329,563                            | 4.85%   | Ch\$ 301,979        | 6.31%   |
| Borrowings from domestic financial institutions | 98,866   | 4.75  | 94,792                                  | 4.96  | 73,947              | 4.40  |
| Foreign borrowings                              | 15,333   | 0.02  | 292,557                                 | 4.86  | 153,981             | 4.15  |
| Other obligations                               | 35,534   |   | 25,329                                  |   | 53,620              |   |
| Total short-term borrowings                     | Ch\$ 446,624   | 3.95%   | Ch\$ 742,241                            | 4.70%   | Ch\$ 583,527        | 4.92%   |

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

|   | 2005   |   | For the year ended December 31,<br>2006 |   | 2007               |   |
|---|--|---|---|---|--------------------|---|
|   | Average<br>Balance   | Weighted<br>Average<br>Nominal<br>Interest Rate | Average<br>Balance                      | Weighted<br>Average<br>Nominal<br>Interest Rate | Average<br>Balance | Weighted<br>Average<br>Nominal<br>Interest Rate |
|   | (in millions of constant Ch\$ as of December 31, 2007, except for rate data) |   |   |   |                    |   |
| Investments sold under agreements to repurchase | Ch\$ 327,372   | 3.56%   | Ch\$ 292,072                            | 4.95%   | Ch\$ 312,810       | 5.24%   |
| Central Bank borrowings                         | 33,149   | 3.15  | 12,682                                  | 5.26  | 14,759             | 5.36  |
|   | 231,870  | 3.84  | 239,235                                 | 2.10  | 252,391            | 1.56  |

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Borrowings from domestic  
financial institutions

|                             |              |       |              |       |              |       |
|-----------------------------|--------------|-------|--------------|-------|--------------|-------|
| Sub-total                   | Ch\$ 592,391 | 3.65% | Ch\$ 543,989 | 3.70% | Ch\$ 579,960 | 3.64% |
| Foreign borrowings          | 180,136      | 1.73  | 89,761       | 8.22  | 100,749      | 7.86  |
| Total short-term borrowings | Ch\$ 772,527 | 3.20% | Ch\$ 633,750 | 4.34% | Ch\$ 680,709 | 4.26% |

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

|   | Maximum 2005<br>month-end balance                      | Maximum 2006<br>month-end balance | Maximum 2007<br>month-end balance |
|---|--|-----------------------------------|-----------------------------------|
|   | (in millions of constant Ch\$ as of December 31, 2007) |                                   |                                   |
| Investments sold under agreements to repurchase | Ch\$ 367,109   | Ch\$ 335,596                      | Ch\$ 344,858                      |
| Central Bank borrowings                         | 130,968  | 78,479                            | 70,651                            |
| Borrowings from domestic financial institutions | 393,083  | 376,556                           | 335,968                           |
| Foreign borrowings                              | Ch\$ 342,314   | Ch\$ 331,532                      | Ch\$ 161,482                      |

**Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects****OPERATING RESULTS****Introduction**

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

We prepare our audited consolidated financial statements in accordance with Chilean GAAP (including the rules of the Chilean Superintendency of Banks relating thereto), which differ in certain significant respects from U.S. GAAP. Note 29 to our audited consolidated financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP as they relate to us. It also includes a reconciliation to U.S. GAAP of net income for the years ended December 31, 2005, 2006 and 2007 and shareholders' equity at December 31, 2006 and 2007.

Pursuant to Chilean GAAP, the financial data presented in this section for all full-year periods are restated in constant pesos of December 31, 2007. See Presentation of Financial Information and Note 1 to our audited consolidated financial statements.

**Overview**

We are a leading bank in Chile providing a broad range of financial products and services to individual and corporate customers who are primarily located in Chile. Accordingly, and as described below, our financial condition and results of operations are largely dependent upon economic and political factors affecting Chile, as well as changes in interest rates and inflation rates. We also face a number of other risks, such as increased competition and changes in market conditions that could impact our ability to achieve our goals. See Item 4. Information on the Company Selected Statistical Information for a description of risk characteristics associated with each type of loan in our loan portfolio and Item 3. Key Information Risk Factors for a more detailed description of the specific risks that we believe to be material to our business operations.

Despite growth in the 1980s and 1990s, Chile's economy has remained smaller than the economies of neighboring countries such as Argentina and Brazil. After a period of accelerated growth between 1985 and 1997, when Chile's gross domestic product grew at an average annual rate of 7.3%, Chile's economic growth slowed to an average rate of 4.4% between 2000 and 2007. In 2007, Chile's gross domestic product grew by 5.1%, following an increase of 4.3% in 2006. The strength of the global economy continued to benefit Chile's economy despite the rise in international oil prices. In addition, internal consumption and investment grew by 7.7% and 11.9%, respectively, in 2007. The average unemployment rate decreased to 7.0% in 2007 from 8.0% in 2006.

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Despite these macroeconomic developments in 2007, Chile's economy may slow down given the increased volatility and uncertainty in the international financial markets coupled with slower world economic growth.

Future changes in the Chilean economy may impair our ability to proceed with our strategic business plan. Our financial condition and results of operations could also be adversely affected by changes in economic or other policies of the Chilean government, which has exercised and continues to exercise a substantial influence over many aspects of the private sector, or other political and economic developments in Chile, as well as regulatory changes or administrative practices of Chilean authorities, over which we have no control. See Item 3. Key Information Risk Factors Risks Relating to Chile Inflation could adversely affect the value of our ADSs and financial condition and results of operations and Item 3. Key Information Risk Factors Risks Relating to Chile Our growth and profitability depend on the level of economic activity in Chile.

### ***Inflation***

Historically, Chile has experienced high levels of inflation that have significantly affected our financial condition and results of operations. Inflation has remained relatively low in recent years and within the Central Bank's target range of 2% to 4%. However, inflation in 2007 jumped to 7.8% from 2.6% in 2006. The sharp increase in international oil and food prices were the main factors behind the higher inflation rate.

An increase in inflation rates could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. Our results of operations reflect the effect of inflation in the following ways:

a substantial portion of our assets and liabilities are denominated in UFs, a unit of account the value of which in pesos is indexed daily to reflect inflation recorded in the previous month, with the net gain or loss resulting from such indexation reflected in income;

our non-monetary assets, liabilities and shareholders' equity are restated monthly to adjust for inflation, with the net gain or loss resulting from the adjustment reflected in income; and

the interest rates earned and paid on peso-denominated assets and liabilities to some degree reflect inflation and expectations regarding inflation.

*UF-denominated Assets and Liabilities.* The UF is revalued in monthly cycles. On every day in the period beginning the tenth day of the current month through the ninth day of the next month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect each day a pro rata amount of the prior calendar month's change in the Consumer Price Index. One UF was equal to Ch\$17,974.81 at December 31, 2005, Ch\$18,336.38 at December 31, 2006 and Ch\$19,622.66 (U.S.\$ 39.58) at December 31, 2007. The effect of any changes in the nominal peso value of our UF-denominated assets and liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest revenue and expense. Our net interest revenue will be positively affected by inflation (and negatively affected by deflation) to the extent that our average UF-denominated assets exceed our average UF-denominated liabilities, while net interest revenue will be negatively affected by inflation (and positively affected by deflation) when average UF-denominated liabilities exceed average UF-denominated assets. Our average UF-denominated assets exceeded our average UF-denominated liabilities by Ch\$1,554,172 million during the year ended December 31, 2005, Ch\$1,662,433 million during the year ended December 31, 2006 and Ch\$1,551,265 million (U.S.\$3,129 million) during the year ended December 31, 2007. These numbers exclude capital and reserves and derivatives. See Item 4. Information on the Company Selected Statistical Information.

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*Peso-denominated Assets and Liabilities.* Interest rates in Chile tend to reflect the rate of inflation during the relevant period and expectations regarding future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to the inflation rate varies. See *Interest Rates*. We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. The ratio of such deposits to average interest bearing peso-denominated liabilities was 65% during 2005, 53% during 2006 and 50% during 2007. Because a large part of such deposits are not sensitive to inflation, even a slight decline in the rate of inflation may adversely affect our net interest margin on assets funded with such deposits and even a slight increase in the rate of inflation may increase the net interest margin on such assets. See *Item 4. Information on the Company Selected Statistical Information Interest Earning Assets and Net Interest Margin*.

***Interest Rates***

Interest rates earned and paid on our assets and liabilities reflect in part inflation and expectations regarding future inflation, shifts in short-term interest rates related to the Central Bank's monetary policies and movements in long-term real rates. The Central Bank manages short-term interest rates based on its objectives of balancing low inflation and economic growth. Accordingly, with the inflation increase in 2007, the Central Bank raised its reference interest rate four times, resulting in a final rate of 6.0% by the end of 2007. On the other hand, long-term rates remained stable in 2007.

Because our liabilities generally re-price faster than our assets, changes in the rate of inflation or short-term interest rates are reflected in the rates of interest we pay on our liabilities before they are reflected in the interest rates we earn on our assets. Accordingly, our net interest margin on assets and liabilities is usually adversely affected in the short-term by increases in inflation or short-term interest rates and benefits in the short-term from decreases in inflation or short-term interest rates, although the existence of non-interest bearing peso-denominated demand deposits tends to mitigate both effects. See *Inflation Peso-denominated Assets and Liabilities*. In addition, because our peso-denominated liabilities have relatively short re-pricing periods, those liabilities generally are more responsive to changes in inflation or short-term interest rates than our UF-denominated liabilities. As a result, during periods when current inflation exceeds the previous month's inflation, customers often switch funds from peso-denominated deposits to more expensive UF-denominated deposits, thereby adversely affecting our net interest margin.

The average real annual short-term interest rate based on the rate paid by Chilean financial institutions for 90- to 360-day Chilean peso-denominated deposits was 1.89% in 2005, 2.83% in 2006 and 2.20% in 2007. The average annual real long-term interest rate based on the Central Bank's eight-year duration Chilean peso-denominated bonds was 2.55% in 2005, 2.98% in 2006 and 2.90% in 2007.

***Foreign Currency Exchange Rates***

A significant portion of our assets and liabilities are denominated in foreign currencies, principally U.S. dollars, and we have historically maintained and may continue to maintain gaps between the balances of such assets and liabilities. The gap between foreign currency-denominated assets and foreign currency-denominated liabilities was a net asset position of Ch\$29,004 million at December 31, 2005, Ch\$18,177 at December 31, 2006 and Ch\$2,316 million at December 31, 2007. See Note 20 to our audited consolidated financial statements. This gap includes assets and liabilities denominated in foreign currencies and assets and liabilities denominated in Chilean pesos that contain repayment terms linked to changes in foreign currency exchange rates. Because foreign currency-denominated assets and liabilities, as well as interest earned or paid on such assets and liabilities and gains (losses) realized upon the sale of such assets, are translated into pesos in preparing our audited consolidated financial statements, our reported income is affected by changes in the value of the peso with respect to foreign currencies, primarily the U.S. dollar. Adjustments to U.S. dollar-indexed assets are reflected as adjustments in net interest earnings and offset results in the foreign exchange position. The exchange rate variation over capital and reserves of our foreign branches is adjusted against equity rather than against net income according to local accounting rules.

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### **Critical Accounting Policies**

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

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

#### ***Allowances for loan losses***

Chilean banks are required to maintain loan loss allowances in amounts determined in accordance with the regulations issued by the Chilean Superintendency of Banks. Under these regulations, we must classify our portfolio based on factors such as changes in the nature and volume of our loan portfolio, trends in forecasted portfolio credit quality and economic conditions that may affect the borrower's payment capacity. The minimum amount of required loan loss allowances are determined based on fixed percentages of estimated loan losses assigned to each category.

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

The classification of our loan portfolio for Chilean GAAP purposes and for allowances for loan losses under U.S. GAAP is determined through statistical modeling and estimates. Informed judgments must be made when identifying deteriorating loans, the probability of default, the expected loss, the value of collateral and current economic conditions. Even though we consider our allowances for loan losses to be adequate, the use of different estimates and assumptions could produce different allowances for loan losses, and amendments to the allowances may be required in the future due to changes in the value of collateral, the amount of cash to be received or other economic events.

On January 1, 2004, in accordance with Circular No. 3,246 issued by the Chilean Superintendency of Banks, we adopted a new methodology to determine our loan loss allowances. This new regulation did not adversely affect our financial position or results of operations. A detailed description of this accounting policy is discussed in Item 4. Information on the Company Regulation and Supervision Allowances for Loan Losses and in Notes 1 and 29 to our audited consolidated financial statements.

#### ***Fair value accounting***

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

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***Price-level restatement***

Chilean GAAP requires that financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method prescribes that the historical cost of all non-monetary accounts be restated for general price-level changes between the date of origin of each item and the year-end. A bank's net monetary asset position is determined by subtracting its net nonmonetary assets from its nonmonetary liabilities. As such, under Chilean GAAP, the gain (or loss) from price-level restatement in results of operations is determined by subtracting the price-level restatement adjustment of net nonmonetary assets from the price-level restatement adjustment of shareholders' equity. The inflation rate used for purposes of such adjustments is the change in the Consumer Price Index during the 12 months ended November 30 of the reported year. The change in the Consumer Price Index used for price-level restatement purposes was 3.6% in 2005, 2.1% in 2006 and 7.4% in 2007. See Note 1(b) to our audited consolidated financial statements. The actual change in the Consumer Price Index was 3.7% in the year ended December 31, 2005, 2.6% in the year ended December 31, 2006 and 7.8% in the year ended December 31, 2007.

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

For comparative purposes, the historical December 31, 2006 and 2007 audited consolidated financial statements and their accompanying notes have been presented in constant Chilean pesos as of December 31, 2007. As described in Note 1(t) of our audited consolidated financial statements, certain balances of previous years' financial statements have been reclassified to conform with the present year presentation.

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

***Goodwill***

Under U.S. GAAP, we have significant intangible assets related to goodwill. We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other acquired intangibles, at fair value as required by SFAS No. 141, published by FASB. These include amounts pushed down from our parent Quiñenco S.A. Under SFAS No. 142, goodwill must be allocated to reporting units and tested for impairment. On December 31, 2007, goodwill has been allocated according to the structure of our business segments in 2007.

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We test goodwill for impairment annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test. Impairment testing is performed at the reporting-unit level, which is generally one level below the five major business segments. The first part of the test is a comparison at the reporting unit level of the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value is less than the carrying value, then the second part of the test is conducted to measure the amount of potential goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared to the carrying amount of goodwill recorded in our financial records. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, then we would recognize an impairment loss in the amount of the difference, which would be recorded as a charge against net income.

The fair values of the reporting units are determined using discounted cash flow models based on each reporting unit's internal forecasts.

We did not have any goodwill impairment charges in 2006 and 2007.

The initial goodwill and intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future using a discounted cash flow analysis. Additionally, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine. Events and factors that may significantly affect the estimates include competitive forces, customer behavior and attrition, changes in revenue growth trends, cost structures and technology and changes in interest rates and specific industry or market sector conditions. Impairment is recognized earlier whenever warranted. For a further discussion of accounting practices for goodwill under U.S. GAAP, see Note 29 to our audited consolidated financial statements.

### **Changes in Accounting Principles**

On January 1, 2004, new principles for determining loan loss allowances became effective. The application of these new principles did not have a material effect on our financial condition or results of operations. To comply with the new principles, we re-designated any voluntary provisions recorded as of December 31, 2003 as additional provisions in conformity with the new principles.

In accordance with Circular No. 3,345 issued by the Chilean Superintendency of Banks and Financial Institutions, we adopted new accounting criteria for the measurement, classification and recording of trading and investment securities, derivative instruments, hedge accounting and asset derecognition beginning on June 30, 2006. The Circular required retrospective application as of December 31, 2005, recognizing the cumulative effect in equity during 2006. This resulted in a credit of Ch\$960 million (in historical pesos) to a Reserves account within equity in 2006. On other hand, for the investment securities and derivatives portfolio held during 2006, the application of this new standard generated an income of Ch\$836 million, which is included in the line item Gains from trading activities.

### **Differences between Chilean and United States Generally Accepted Accounting Principles**

Chilean GAAP varies in certain important respects from U.S. GAAP, including some of the methods that are used to measure the amounts shown in the audited consolidated financial statements, additional disclosures required by U.S. GAAP and the accounting treatment of the merger with Banco de A. Edwards. Those differences, as well as other significant differences between Chilean GAAP and U.S. GAAP, are described in greater detail in Note 29 to our audited consolidated financial statements.

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### **Results of Operations for the Years Ended December 31, 2005, 2006 and 2007**

The following section discusses the results of operations for the years ended December 31, 2005, 2006 and 2007. To the extent that it is available and is useful in analyzing our results, we have included information broken down by the business segments we use in internal reporting. We also present our results on a consolidated basis.

We use a business segment-based profitability system to manage our business. This system allows us to extract income, balances, interest rate and expense information by client and also allows us to view information by account officer, branch or business segment. In order to assess income per transaction, the system compares the interest rate agreed upon with the client with our own cost of funds. For various transactions, we use internal cost of funds tables, which are updated daily. From these tables we are able to determine operating costs per transaction or per client and these costs are then allocated to our various business segments. Developed internally, the system has been continuously refined resulting in cost re-allocations. Figures for years before 2007 have been restated according to the current manner in which we measure our business segments during 2007.

Our business is organized into the following segments:

retail market;

wholesale market;

international banking;

treasury and money market operations; and

operations through subsidiaries

We use the same accounting policies within business segments as those used for our consolidated financial statements. Corporate and individual customers are assigned to account executives who work exclusively within one business segment. Some costs are allocated to one business segment, and others are split between two or more business segments based on a single transaction. Thereafter, any unallocated costs are included as "other" in order to arrive at the consolidated balance sheet and income statement.

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

we measure the net interest margin of loans and deposits on an individual transaction and client basis, based on the difference between the effective customer rate and our related fund transfer price in terms of maturity, repricing and currency;

the results associated with our gap management (interest rate mismatches) have been allocated among different business segments in accordance with the amount of our long-term loans outstanding;

our management model, which measures the performance of our business segments, considers results that are directly related to performance and not to overhead expenses of corporate and support departments, additional allowances, taxes and other non-operating income and expenses; and



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in addition to direct costs (consisting mainly of labor and administrative expenses), we allocate the majority of our indirect operating costs to each business segment based on the type and amount of the relevant transactions. These costs are mainly related to the use of office space, technology and computer equipment. Other indirect costs are allocated using activity-based costing methodology.

**Pre-Tax Income by Business Segment**

The following table sets forth pre-tax income by business segment for each of the years ended December 31, 2005, 2006 and 2007. The line item *Other* includes the effect of conforming internal accounting policies to Chilean GAAP and a number of non-allocated costs, such as human resources related expenses, additional provisions and depreciation costs. For internal reporting purposes, we control and monitor these costs separately and do not include them in the determination of business segment profitability. Also included within *Other* are specific portions of income such as rental income.

|                                      | Year Ended December 31,  |                     |                     | % Increase (Decrease) |              |
|--------------------------------------|--|---------------------|---------------------|-----------------------|--------------|
|                                      | 2005   | 2006                | 2007                | 2005/2006             | 2006/2007    |
|                                      | (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |                     |                     |                       |              |
| Retail banking                       | Ch\$ 123,300   | Ch\$ 133,977        | Ch\$ 168,768        | 8.7%                  | 26.0%        |
| Wholesale banking                    | 74,614   | 85,803              | 94,704              | 15.0                  | 10.4         |
| International banking                | (6,608)  | (7,188)             | (2,418)             | 8.8                   | (66.4)       |
| Treasury and money market operations | 17,271   | 20,523              | 24,035              | 18.8                  | 17.1         |
| Subsidiaries                         | 29,083   | 29,909              | 31,772              | 2.8                   | 6.2          |
| Other                                | (16,030)   | (27,449)            | (47,653)            | 71.2                  | 73.6         |
| <b>Pre-tax income</b>                | <b>Ch\$ 221,630</b>  | <b>Ch\$ 235,575</b> | <b>Ch\$ 269,208</b> | <b>6.3%</b>           | <b>14.3%</b> |

*Consolidated. 2006 and 2007.* The 14.3% increase in pre-tax income in 2007 as compared to 2006 was primarily attributable to a 23.7% increase in net interest revenue, fueled by a 14.2% growth of the loan portfolio and higher earnings from assets funded by demand deposits as a consequence of higher nominal interest rates and, to a lesser extent, an increase in fees and income from services, net. These positive factors were partially offset by a 35.2% increase in provisions for loan losses and higher operating expenses. Higher pre-tax income mainly reflected our focus on expanding our customer base and improving our service quality.

*2005 and 2006.* The 6.3% increase in pre-tax income in 2006 as compared to 2005 was primarily attributable to a 6.4% increase in net interest revenue, principally as a result of a 14.9% growth in the loan portfolio and higher contributions from assets funded by demand deposits. To a lesser extent, the increase in pre-tax income was due to an increase in other income and expenses, net and higher gains from trading activities. These factors more than offset the increase in provisions for loan losses and in operating expenses. These results mainly reflected the positive macroeconomic conditions that prevailed in Chile in 2006, as well as our strategy of further expanding our retail segment by broadening distribution channels and creating better service and product alternatives.

*Retail Banking. 2006 and 2007.* The 26.0% increase in the retail banking business segment's pre-tax income in 2007 was primarily attributable to a 17.5% increase in operating revenues, from Ch\$339,323 million in 2006 to Ch\$398,732 million in 2007. This increase was mainly due to a 12.3% expansion in the loan portfolio, higher earnings from demand deposits and, to a lesser extent, higher fee income. These factors were partially offset by a 21.4% increase in provisions for loan losses mainly related to the consumer loan portfolio and by higher operating expenses.

*2005 and 2006.* The 18.7% increase in the retail banking business segment's pre-tax income in 2006 was primarily attributable to a 9.4% increase in operating revenues from Ch\$310,223 million in 2005 to Ch\$339,323 million in 2006, which in turn was a consequence of a 15.7% expansion in the loan portfolio and higher earnings from demand deposits. These factors were partially offset by a 5.1% increase in operating expenses mainly related to marketing and other initiatives to expand the number of customers and our distribution network.

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*Wholesale Banking. 2006 and 2007.* The 10.4% increase in the wholesale business segment's pre-tax income in 2007 was mainly attributable to a 19.6% increase in operating revenues, from Ch\$137,010 million in 2006 to Ch\$163,804 million in 2007, primarily as a consequence of a 20.0% expansion in loans and, to a lesser extent, a 4.1% decrease in operating expenses.

*2005 and 2006.* The 15.06% increase in the wholesale business segment's pre-tax income in 2006 was primarily attributable to (i) a 2.8% increase in operating revenues due to the 10.4% expansion in the loan portfolio and (ii) higher other income and expenses mainly related to higher income from the sale of assets received in lieu of payment previously charged off. In addition, there was a 43.8% decrease in provisions for loan losses as a consequence of the lower risk level of the corporate loan portfolio.

*International Banking. 2006 and 2007.* The international banking business segment recorded a loss before taxes of Ch\$2,418 million during 2007 as a consequence of mark-to-market losses in the securities portfolio of our foreign branches due to the global financial turbulence over the second half of 2007. In addition, during 2007, foreign branches registered non-recurring operating expenses related to the merger agreement with Citigroup, which led to the closing of these operations in 2008.

*2005 and 2006.* International banking showed a negative net income before taxes during 2006 mainly due to significant advisory expenses incurred in the review process and the implementation of additional controls as part of an agreement with U.S. regulators. However, during the last five months of 2006, foreign branches accounted for positive results as extraordinary expenses dropped significantly. To a lesser extent, higher provisions for loan losses were recorded by international banking during 2006 as a consequence of a 62% expansion of its loan portfolio.

*Treasury and Money Market Operations. 2006 and 2007.* The treasury and money market operations business segment's pre-tax income increased to Ch\$24,035 million in 2007 from Ch\$20,523 million in 2006 largely as a consequence of the sharp increase in the inflation rate, which resulted in higher interest income earned on the portion of UF denominated assets financed by non-UF denominated liabilities.

*2005 and 2006.* The treasury and money market operations business segment's pre-tax income increased to Ch\$20,523 million in 2006 from Ch\$17,271 million in 2005 primarily as a result of higher earnings from investments securities as a consequence of the decrease in long-term interest rates, which positively impacted the market value of Latin American bonds and mortgage finance bonds issued by the Bank and corporate and financial institution securities in general.

*Operations through Subsidiaries. 2006 and 2007.* The 6.2% increase in pre-tax income from our subsidiaries in 2007 compared to 2006 was primarily attributable to higher fee income recorded by our Mutual Fund, Securities Brokerage and Insurance Brokerage subsidiaries. The positive performance of these subsidiaries offset the results obtained by our Financial Advisory subsidiary, which generated fewer transactions in 2007, and our Factoring subsidiary, which had a lower operating income as a consequence of a higher inflation rate as most of its Chilean peso-denominated loans were financed with funds denominated in UF.

*2005 and 2006.* The 2.8% increase in pre-tax income from our subsidiaries in 2006 as compared with 2005 was primarily attributable to higher operating income of the Factoring subsidiary as a consequence of significant growth in factoring contracts and higher fee income in our Insurance Brokerage, Mutual Funds and Financial Advisory subsidiaries. These trends offset the lower results obtained by the Securities Brokerage subsidiary, which registered (i) lower fee income from stocks trading transaction and investment banking advisories and (ii) lower gains on financial instruments.

**Table of Contents****Net Income**

The following table sets forth the principal components of our net income, as detailed in our audited consolidated financial statements for the years ended December 31, 2005, 2006 and 2007:

|                                       | Year Ended December 31,  |              |              | % Increase (Decrease) |           |
|---------------------------------------|--|--------------|--------------|-----------------------|-----------|
|                                       | 2005   | 2006         | 2007         | 2005/2006             | 2006/2007 |
|                                       | (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |              |              |                       |           |
| Net interest revenue                  | Ch\$ 409,310   | Ch\$ 435,410 | Ch\$ 538,465 | 6.4%                  | 23.7%     |
| Provisions for loan losses            | (24,155)   | (38,909)     | (52,619)     | 61.1                  | 35.2      |
| Fees and income from services, net    | 150,550  | 143,531      | 168,490      | (4.7)                 | 17.4      |
| Other operating income (loss), net    | 8,522  | 23,390       | (15,347)     | 174.5                 |           |
| Other income and expenses, net:       |  |              |              |                       |           |
| Other income and expenses, net        | (6,830)  | 4,087        | 1,580        |                       | (61.3)    |
| Minority interest                     |  | (1)          |              |                       | (100.0)   |
| Operating expenses                    | (303,211)  | (322,776)    | (333,413)    | 6.5                   | 3.3       |
| Net loss from price-level restatement | (12,556)   | (9,157)      | (37,948)     | (27.1)                | 314.4     |
| Net income before income taxes        | 221,630  | 235,575      | 269,208      | 6.3                   | 14.3      |
| Income taxes                          | (23,456)   | (25,879)     | (26,920)     | 10.3                  | 4.0       |
| Net income                            | Ch\$ 198,174   | Ch\$ 209,696 | Ch\$ 242,288 | 5.8%                  | 15.5%     |

2006 and 2007. Our net income for 2007 increased 15.5% from 2006, reflecting a 23.7% increase in net interest revenue and, to a lesser extent, an increase in fees and income from services. These factors more than offset the 35.2% increase of provisions for loan losses and a 3.3% increase in our operating expenses.

2005 and 2006. Our net income for 2006 increased 5.8% from 2005, primarily due to a 6.4% increase in net interest revenue and, to a lesser extent, an increase in other income and expenses, net and higher other operating income. These factors more than offset the increase in provisions for loan losses and operating expenses.

**Net Interest Revenue**

The tables included under the headings Interest Revenue and Interest Expense set forth information regarding our consolidated interest revenue and expenses and average interest earning assets and average interest bearing liabilities for the years ended December 31, 2005, 2006 and 2007. This information is derived from the tables included elsewhere in this annual report under Item 4. Information on the Company Selected Statistical Information and is qualified in its entirety by reference to such information.

|                                    | Year Ended December 31,  |              |                | % Increase (Decrease) |           |
|------------------------------------|--|--------------|----------------|-----------------------|-----------|
|                                    | 2005   | 2006         | 2007           | 2005/2006             | 2006/2007 |
|                                    | (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |              |                |                       |           |
| Interest revenue                   | Ch\$ 749,421   | Ch\$ 835,200 | Ch\$ 1,170,098 | 11.4%                 | 40.1%     |
| Interest expense                   | (340,111)  | (399,790)    | (631,633)      | 17.5                  | 58.0      |
| Net interest revenue               | Ch\$ 409,310   | Ch\$ 435,410 | Ch\$ 538,465   | 6.4%                  | 23.7%     |
| Net interest margin <sup>(1)</sup> | 4.10%  | 3.95%        | 4.42%          |                       |           |

(1) Net interest revenue divided by average interest earning assets. The average balances for interest earning assets, including interest readjustments, have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries.



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*2006 and 2007.* Net interest revenue increased by 23.7% from 2006 to 2007, primarily due to a 10.4% growth in average interest earning assets and, to a lesser extent, due to a net interest margin increase of 47 basis points from 3.95% in 2006 to 4.42% in 2007. The increase in net interest margin was largely a result of the following:

A higher inflation rate, measured by the variation of the UF which was 7.0% in 2007 as compared to 2.0% in 2006, which implied that during 2007 we earned higher interest income on the portion of interest earning assets financed by non-interest bearing liabilities;

A higher contribution from demand deposits as a result of the increase in nominal interest rates (the average short-term interest rate was 5.31% in 2007 and 5.02% in 2006);

A favorable funding structure as the ratio of interest-bearing liabilities to interest-earning assets improved to 72.6% in 2007 from 73.6% in 2006.

However, these effects were partially offset by a lower lending spread attained during 2007 compared to the previous year as a consequence of increased competition.

*2005 and 2006.* Net interest revenue increased by 6.4%, from Ch\$409,310 million in 2005 to Ch\$435,410 million in 2006, primarily as a result of a 10.4% growth in average interest earning assets. This more than offset the 15 basis point (one basis point equals one one-hundredth of a percent) decrease in net interest margin (i.e., net interest revenue divided by average interest-earning assets) from 4.10% in 2005 to 3.95% in 2006. This decrease in net interest margin was primarily the result of:

A lower inflation rate, measured by the UF variation of 2.0% in 2006 as compared to 3.8% in 2005, which gave rise to lower interest income earned on the portion of UF denominated assets financed by non-interest bearing liabilities;

Lower spreads attained during 2006 mainly by the wholesale segment as compared to the previous year as a consequence of increased competition; and

A less favorable funding structure as the ratio of interest-bearing liabilities to interest-earning assets increased to 73.6% in 2006 from 71.1% in 2005.

These effects were partially offset by:

A higher contribution from demand deposits as a result of the increase in nominal interest rates (the average short-term interest rate was 5.02% in 2006 and 3.44% in 2005);

A lower negative repricing effect during 2006 (since liabilities reprice faster than interest earning assets) as the Central Bank raised the monetary policy interest rate by only 75 basis points in 2006 as compared to an increase of 225 basis points in 2005.

**Table of Contents****Interest Revenue**

The following table sets forth information regarding our interest revenue and average interest earning assets for the years ended December 31, 2005, 2006 and 2007:

|  | Year Ended December 31,  |                 |                 | % Increase (Decrease) |           |
|--|--|-----------------|-----------------|-----------------------|-----------|
|  | 2005   | 2006            | 2007            | 2005/2006             | 2006/2007 |
|  | (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |                 |                 |                       |           |
| Interest revenue <sup>(1)</sup>  | Ch\$ 749,421   | Ch\$ 835,200    | Ch\$ 1,170,098  | 11.4%                 | 40.1%     |
| Average interest earning assets:                                       |  |                 |                 |                       |           |
| Commercial loans <sup>(2)</sup>  | Ch\$ 4,679,597   | Ch\$ 5,612,129  | Ch\$ 6,391,622  | 19.9                  | 13.9      |
| Consumer loans   | 844,228  | 1,041,282       | 1,165,577       | 23.3                  | 11.9      |
| Mortgage loans <sup>(3)</sup>  | 791,670  | 669,483         | 523,456         | (15.4)                | (21.8)    |
| Foreign trade loans  | 694,777  | 716,104         | 788,304         | 3.1                   | 10.1      |
| Interbank loans  | 43,627   | 19,144          | 47,903          | (56.1)                | 150.2     |
| Past due loans <sup>(4)</sup>  | 89,651   | 73,381          | 65,543          | (18.1)                | (10.7)    |
| Contingent loans <sup>(5)</sup>  | 674,079  | 889,882         | 1,055,673       | 32.0                  | 18.6      |
| Leasing contracts  | 428,994  | 519,986         | 594,055         | 21.2                  | 14.2      |
| Total loans  | Ch\$ 8,246,623   | Ch\$ 9,541,391  | Ch\$ 10,632,133 | 15.7%                 | 11.4%     |
| Financial investments <sup>(6)</sup>                                   | 1,574,034  | 1,368,953       | 1,395,735       | (13.0)                | 2.0       |
| Interbank deposits   | 172,691  | 117,807         | 150,222         | (31.8)                | 27.5      |
| Total  | Ch\$ 9,993,348   | Ch\$ 11,028,151 | Ch\$ 12,178,090 | 10.4%                 | 10.4%     |
| Average rates earned on total interest earning assets <sup>(7)</sup> : |  |                 |                 |                       |           |
| Average nominal rates  | 7.50%  | 7.57%           | 9.61%           |                       |           |
| Average real rates   | 1.97%  | 5.61%           | 0.49%           |                       |           |

(1) Interest revenue includes fees we charge in respect of contingent loans.

(2) Excludes leasing contracts.

(3) Includes residential and general purpose mortgage loans.

(4) Includes interest accrued and unpaid on principal until the date on which payment becomes overdue.

(5) Consists of unfunded letters of credit, guarantees, performance bonds and other unfunded commitments.

(6) Financial investments includes primarily bonds issued by the Central Bank and foreign governments.

(7) See Item 4. Information on the Company Selected Statistical Information Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities.

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*2006 and 2007.* Interest revenue increased by 40.1% from 2006 to 2007, primarily as a result of an increase in the average nominal interest rates earned from 7.57% in 2006 to 9.61% in 2007 and, to a lesser extent, a 10.4% growth in average interest earning assets which was driven by an 11.4% increase in average loans. The increase in average nominal interest rates was mainly the result of an increase in the inflation rate (from 2.6% in 2006 to 7.8% in 2007) and increases of the Central Bank's nominal reference rates (from an average of 5.02% in 2006 to 5.31% in 2007). In addition, the decrease in the average real rate earned on interest earning assets from 5.61% in 2006 to 0.49% in 2007 can be explained by the relatively large increase in the inflation rate during that period.

*2005 and 2006.* Interest revenue increased by 11.4% from 2005 to 2006, primarily as a result of a 10.4% increase in average interest-earning assets and, to a lesser extent, a slight increase in average nominal interest rates earned (from 7.50% in 2005 to 7.57% in 2006). The increase in interest-earning assets was driven by a 15.7% growth in average loans, which more than offset the contraction of 13.0% in average financial investments. The increase in average nominal interest rates was mainly the result of an increase of the Central Bank's reference nominal interest rates (from 4.50% as of December 2005 to 5.25% at the end of 2006), which was partially offset by a decrease in the inflation rate.

**Table of Contents****Interest Expense**

The following table sets forth information regarding our interest expense and average interest bearing liabilities for the years ended December 31, 2005, 2006 and 2007:

|   | Year ended December 31,  |                       |                       | % Increase (Decrease) |             |
|---|--|-----------------------|-----------------------|-----------------------|-------------|
|   | 2005   | 2006                  | 2007                  | 2005/2006             | 2006/2007   |
|   | (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |                       |                       |                       |             |
| Interest expense  | Ch\$ 340,111   | Ch\$ 399,790          | Ch\$ 631,633          | 17.5%                 | 58.0%       |
| Average interest-bearing liabilities:                                     |  |                       |                       |                       |             |
| Time deposits <sup>(1)</sup>  | Ch\$ 4,313,976   | Ch\$ 5,479,046        | Ch\$ 6,009,067        | 27.0                  | 9.7         |
| Savings accounts  | 152,714  | 149,209               | 136,098               | (2.3)                 | (8.8)       |
| Total Central Bank borrowings   | 34,895   | 13,892                | 15,408                | (60.2)                | 10.9        |
| Investments sold under agreements to repurchase                           | 327,372  | 292,073               | 312,810               | (10.8)                | 7.1         |
| Mortgage finance bonds  | 676,348  | 532,761               | 428,383               | (21.2)                | (19.6)      |
| Other interest-bearing liabilities <sup>(2)</sup>                         | 1,602,423  | 1,646,029             | 1,940,823             | 2.7                   | 17.9        |
| <b>Total</b>  | <b>Ch\$ 7,107,728</b>  | <b>Ch\$ 8,113,010</b> | <b>Ch\$ 8,842,589</b> | <b>14.1%</b>          | <b>9.0%</b> |
| Average rates paid on total interest bearing liabilities <sup>(3)</sup> : |  |                       |                       |                       |             |
| Average nominal rates   | 4.79%  | 4.93%                 | 7.14%                 |                       |             |
| Average real rates  | (0.86)%  | 3.11%                 | (1.84)%               |                       |             |
| Average (Chilean peso-denominated) non-interest bearing demand deposits   | Ch\$ 2,396,876   | Ch\$ 2,200,494        | Ch\$ 2,317,379        | (8.2)%                | 5.3%        |

(1) Includes interest-earning demand deposits.

(2) Combines bonds, interest-bearing demand deposits and other interest bearing liabilities.

(3) See Item 4. Information on the Company Selected Statistical Information Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities.

2006 and 2007. Interest expense increased by 58.0% from 2006 to 2007, primarily as a result of an increase in average nominal interest rates paid, from 4.93% in 2006 to 7.14% in 2007 and also due to a 9.0% increase in average interest-bearing liabilities. The increase in the average nominal interest rate paid was primarily attributable to the higher inflation rate and an increase in the Central Bank's monetary policy rate. The increase in average interest-bearing liabilities was mainly the result of a 9.7% increase in time deposits and a 17.9% increase in other interest-bearing liabilities principally related to bonds and subordinated bonds.

2005 and 2006. Interest expense increased by 17.5% from 2005 to 2006, primarily as a result of a 14.1% increase in average interest-bearing liabilities and, to a lesser extent, due to an increase in average nominal interest rates paid (from 4.79% in 2005 to 4.93% in 2006). The increase in average nominal interest rates was largely the result of an increase in the Central Bank's monetary policy rates during the first eight months of 2006. The increase in average interest bearing liabilities was primarily attributable to a 27% increase in time deposits.

**Provisions for Loan Losses**

Chilean banks are required to maintain allowances to cover possible credit losses in accordance with regulations issued by the Chilean Superintendency of Banks. For statistical information with respect to our substandard loans and allowances for loan losses, see Item 4. Information on the Company Selected Statistical Information and Note 7 to our audited consolidated financial information. According to

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regulations of the Chilean Superintendency of Banks applicable to such periods, the amount of provisions charged to income in any period consists of net provisions for possible loan losses and additional allowances. See Item 4. Information on the Company Regulation and Supervision and Note 7 to our audited consolidated financial statements.

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The following table sets forth information with respect to our provisions and allowances for loan losses and charge-offs for each of the years ended December 31, 2005, 2006 and 2007:

|  | Year Ended December 31, |                 |                 | % Increase (Decrease) |           |
|--|-------------------------|-----------------|-----------------|-----------------------|-----------|
|  | 2005                    | 2006            | 2007            | 2005/2006             | 2006/2007 |
| (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |                         |                 |                 |                       |           |
| <b>Provisions:</b>   |                         |                 |                 |                       |           |
| Total provisions for loan losses   | Ch\$ 24,155             | Ch\$ 38,909     | Ch\$ 52,619     | 61.1%                 | 35.2%     |
| Gross provisions for loan losses   | 60,326                  | 69,088          | 87,743          | 14.5                  | 27.0      |
| Total loan loss recoveries   | 36,171                  | 30,179          | 35,124          | (16.6)                | 16.4      |
| <b>Charge-offs:</b>  |                         |                 |                 |                       |           |
| Total charge-offs  | 73,845                  | 65,161          | 71,564          | (11.8)                | 9.8       |
| Net charge-offs  | 37,674                  | 34,982          | 36,440          | (7.1)                 | 4.2       |
| <b>Other asset quality data:</b>   |                         |                 |                 |                       |           |
| Total loans  | Ch\$ 8,998,238          | Ch\$ 10,341,912 | Ch\$ 11,813,926 | 14.9                  | 14.2      |
| Consolidated risk index  | 1.72%                   | 1.51%           | 1.36%           |                       |           |
| Unconsolidated risk index  | 1.70%                   | 1.48%           | 1.34%           |                       |           |
| Allowances for loan losses <sup>(1)</sup>                                      | Ch\$ 154,948            | Ch\$ 155,707    | Ch\$ 161,140    | 0.5%                  | 3.5%      |
| Allowances for loan losses as a percentage of total loans                      | 1.72%                   | 1.51%           | 1.36%           |                       |           |

(1) Allowances for loan losses includes additional loan loss allowances greater than those required by the Chilean Superintendency of Banks. See Item 4. Information on the Company Regulation and Supervision Allowances for Loan Losses and Item 4. Information on the Company Regulation and Supervision Additional Allowances.

2006 and 2007. Our provisions for loan losses increased by 35.2% from 2006 to 2007, mainly as a result of an overall loan portfolio expansion and an increase in the level of risk mostly associated with our consumer portfolio. Higher provisions were partially offset by an increase of 16.4% in loan loss recoveries. The ratio of provisions for loan losses to average loans increased to 0.49% in 2007 from 0.41% in 2006. On a consolidated basis, our risk index decreased from 1.51% in 2006 to 1.36% in 2007.

2005 and 2006. Our overall provisions for loan losses increased from Ch\$24,155 million in 2005 to Ch\$38,909 million in 2006, primarily as a result of higher consumer portfolio growth in the individual segment coupled with a less favourable economic environment which resulted in a moderate increase in its associated risk index (measured as allowances to total loans). Provisions for loan losses related to corporations remained stable because commercial loan expansion was offset by a decline in its risk level. In addition, higher provisions for loan losses were also affected by the 16.6% annual decrease in loan loss recoveries. Provisions for loan losses represented 0.41% and 0.29% of total average loans, in 2006 and 2005, respectively, showing exceptionally low levels of provisions as compared to the average figures recorded during the last ten years. On a consolidated basis, our risk index decreased from 1.72% in 2005 to 1.51% in 2006.

**Table of Contents*****Fees and Income from Services, Net***

The following table sets forth certain components of our fees and income from services (net of fees paid to third parties that provide support for those services, principally fees relating to sales force and receipts and collection services provided to us) for the years ended December 31, 2005, 2006 and 2007:

|   | Year Ended December 31,  |                     |                     | % Increase (Decrease) |              |
|---|--|---------------------|---------------------|-----------------------|--------------|
|   | 2005   | 2006                | 2007                | 2005/2006             | 2006/2007    |
|   | (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |                     |                     |                       |              |
| Mutual funds  | Ch\$ 25,424  | Ch\$ 26,814         | Ch\$ 34,962         | 5.5%                  | 30.4%        |
| Checking accounts and overdrafts                                      | 26,003   | 25,854              | 26,963              | (0.6)                 | 4.3          |
| Insurance   | 21,930   | 26,021              | 29,717              | 18.7                  | 14.2         |
| Stock brokerage   | 16,557   | 11,278              | 15,824              | (31.9)                | 40.3         |
| Credit cards  | 12,503   | 14,567              | 15,014              | 16.5                  | 3.1          |
| Sight accounts and ATMs   | 14,370   | 15,555              | 18,386              | 8.3                   | 18.2         |
| Cash management services  | 10,268   | 11,569              | 11,369              | 12.7                  | (1.7)        |
| Collection of over-due loans  | 9,492  | 10,614              | 10,955              | 11.8                  | 3.2          |
| Credits   | 10,487   | 4,905               | 5,668               | (53.2)                | 15.6         |
| Financial advisory services   | 1,012  | 3,054               | 1,211               | 201.8                 | (60.3)       |
| Credit lines  | 7,974  | 8,676               | 7,580               | 8.8                   | (12.6)       |
| Letters of credit, guarantees, collaterals and other contingent loans | 5,207  | 4,123               | 3,596               | (20.8)                | (12.8)       |
| Income and revenue from assets received in lieu of payment            | 3,859  | 2,503               | 262                 | (35.1)                | (89.5)       |
| Foreign trade and currency exchange                                   | 3,659  | 4,304               | 3,940               | 17.6                  | (8.5)        |
| Collection services   | 2,771  | 2,088               | 1,880               | (24.6)                | (10.0)       |
| Custody and trust services  | 1,932  | 2,230               | 2,371               | 15.4                  | 6.3          |
| Leasing   | 1,407  | 1,362               | 208                 | (3.2)                 | (84.7)       |
| Factoring   | 669  | 926                 | 1,035               | 38.4                  | 11.8         |
| Fees from sales force   | (16,465)   | (23,900)            | (16,738)            | 45.2                  | (30.0)       |
| Cobranding  | (6,379)  | (7,493)             | (6,694)             | 17.5                  | (10.7)       |
| Teller services expenses  | (4,343)  | (4,947)             | (5,273)             | 13.9                  | 6.6          |
| Other   | 2,213  | 3,428               | 6,254               | 54.9                  | 82.4         |
| <b>Total</b>  | <b>Ch\$ 150,550</b>  | <b>Ch\$ 143,531</b> | <b>Ch\$ 168,490</b> | <b>(4.7)%</b>         | <b>17.4%</b> |

*2006 and 2007.* Fees and income from services, net increased by 17.4% from 2006 to 2007. As a result of the new regulation on labor outsourcing put in place during 2007, this annual figure includes a reclassification of approximately Ch\$15,460 million of expenses from fees paid to operating expenses. Excluding this effect, total fees and income from services would have increased by 6.6% in 2007 as compared to 2006. This annual increase in fees was primarily a result of an increase in fees generated by our insurance, mutual funds and stock brokerage businesses. To a lesser extent, higher fee income was also related to checking accounts, sight accounts and ATMs (largely due to an increase in the client base), credits (principally associated to prepayment loans) and credit cards, partially offset by lower fees generated by the financial advisory business.

*2005 and 2006.* Fees and income from services, net decreased by 4.7% from 2005 to 2006, primarily as a result of higher sales force expenses, a drop in fees from credits and lower fees posted by our stock brokerage subsidiary during 2006. This decrease in fees and income from services was partially offset by higher fee-based income, mainly related to the Bank's core products such as credit cards, debit accounts, ATMs and cash management services as a consequence of an important network expansion and good customer support, which has enabled us to grow our customer base. In addition, as a consequence of our long-standing efforts to cross-sell products throughout the Bank's various business lines, fees related to insurance, mutual funds and factoring increased during 2006.

**Table of Contents****Other Operating Income (Loss), Net**

Other operating income (loss), net, consists of net gains and losses from trading activities and net gains and losses from foreign exchange transactions. Trading results include gains and losses realized on the sale of securities, gains and losses from the mark-to-market of securities and interest rate and currency derivatives at the end of the period. Net gains and losses from foreign exchange transactions include gains and losses realized upon the sale of foreign currency and foreign exchange derivatives and gains and losses arising from the period-end translation of foreign currency-denominated assets and liabilities into pesos. Foreign exchange results also include net adjustments on U.S. dollar-indexed domestic currency transactions, or the exchange rate variation on foreign branches' capital and reserves. Foreign exchange results include existing interest rate differences in currency derivatives.

The following table sets forth certain components of our other operating income (loss), net, in the years ended December 31, 2005, 2006 and 2007:

|   | Year Ended December 31,  |             |               | % Increase (Decrease) |
|---|--|-------------|---------------|-----------------------|
|   | 2005   | 2006        | 2007          | 2005/2006             |
|   | (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |             |               | 2006/2007             |
| Gains (losses) on sales of financial instruments and non-forward derivatives, net | Ch\$ 3,515   | Ch\$ 7,925  | Ch\$ (7,633)  | 125.5%                |
| Foreign exchange transactions, and forward derivatives, net                       | 5,007  | 15,465      | (7,714)       | 208.9                 |
| Net other operating income  | Ch\$ 8,522   | Ch\$ 23,390 | Ch\$ (15,347) | 174.5%                |

*2006 and 2007.* Other operating income decreased from Ch\$23,390 million in 2006 to a loss of Ch\$15,347 million in 2007, primarily as a result of significant losses in both sales of financial instruments, net and in foreign exchange transactions (including forward contracts). The losses in financial instruments consisted of (i) losses in the value of the Bank's securities portfolio (related to Latin American securities) arising from the global financial instability during the second half of 2007 and (ii) losses resulting from Chilean securities booked in foreign branches due to an increase of 68 basis points in Chile's country risk during the second half of 2007. The losses from foreign exchange transactions and forwards derivatives contracts were mainly due to weaker results obtained in US\$/UF forwards primarily as a result of the higher inflation rate (this effect, though, was partially offset by higher interest income earned at the net interest revenue line).

*2005 and 2006.* In 2006, other operating income, net nearly tripled, from Ch\$8,522 million in 2005 to Ch\$23,390 million in 2006, primarily as a result of (i) higher gains from investments securities as a consequence of a decrease in long-term interest rates during 2006, which positively affected the market value of Latin American bonds, mortgage finance bonds issued by the Bank and corporate and financial institution securities and (ii) higher gains from forwards derivatives contracts. These trends largely offset the decrease in foreign exchange transactions, net.

**Table of Contents*****Other Income and Expenses, Net***

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

The following table sets forth certain components of our other income and expenses, net, for the years ended December 31, 2005, 2006 and 2007:

|  | Year Ended December 31,  |             |             | % Increase (Decrease) |           |
|--|--|-------------|-------------|-----------------------|-----------|
|  | 2005   | 2006        | 2007        | 2005/2006             | 2006/2007 |
|  | (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |             |             |                       |           |
| Non-operating income                       | Ch\$ 8,619   | Ch\$ 17,798 | Ch\$ 18,644 | 106.5%                | 4.8%      |
| Non-operating expenses                     | (16,196)   | (14,818)    | (15,017)    | (8.5)                 | 1.3       |
| Subtotal                                   | (7,577)  | 2,980       | 3,627       |                       | 21.7      |
| Income from investments in other companies | 747  | 1,107       | (2,047)     | 48.2%                 |           |
| Minority interest                          |  | (1)         |             |                       |           |
| Total                                      | Ch\$ (6,830)   | Ch\$ 4,086  | Ch\$ 1,580  |                       | (61.3%)   |

2006 and 2007. Other income and expenses, net decreased by 61.3% from 2006 to 2007. The decrease was primarily a result of (i) lower participation in earnings on equity investment in 2007, caused by losses incurred by the Administrador Financiero de Transantiago (AFT), which amounted to Ch\$3,327 million during the period, and (ii) a non-recurring tax provision release recorded in 2006 of approximately Ch\$3,600 million. Higher gains on assets received in lieu of payments previously charged off in 2007 partially offset these sources of decreases.

2005 and 2006. Other income and expenses, net increased from an expense of Ch\$6,830 million in 2005 to income of Ch\$4,086 million in 2006. The increase was primarily a result of (i) higher non-operating income from the sale of assets received in lieu of payments previously charged off and (ii) a non-recurring tax provision release of approximately Ch\$3,600 million. To a lesser extent, lower non-operating expenses related to provisions for assets received in lieu of payments also explained the increase in other income and expenses, net.

***Operating Expenses***

The following table sets forth information regarding our operating expenses for the years ended December 31, 2005, 2006 and 2007:

|   | Year Ended December 31,  |              |              | % Increase (Decrease) |           |
|---|--|--------------|--------------|-----------------------|-----------|
|   | 2005   | 2006         | 2007         | 2005/2006             | 2006/2007 |
|   | (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |              |              |                       |           |
| Personnel salaries and expenses         | Ch\$ 165,159   | Ch\$ 169,373 | Ch\$ 192,011 | 2.6%                  | 13.4%     |
| Administrative and other expenses:      |  |              |              |                       |           |
| Advertising                             | 13,131   | 17,564       | 15,995       | 33.8                  | (8.9)     |
| Building maintenance                    | 6,345  | 7,156        | 6,937        | 12.8                  | (3.1)     |
| Rentals and insurance                   | 11,582   | 13,400       | 14,662       | 15.7                  | 9.4       |
| Office supplies                         | 5,303  | 5,566        | 5,462        | 5.0                   | (1.9)     |
| Other expenses                          | 83,135   | 88,487       | 75,113       | 6.4                   | (15.1)    |
| Total administrative and other expenses | Ch\$ 119,496   | Ch\$ 132,173 | Ch\$ 118,169 | 10.6%                 | (10.6)    |
| Depreciation and amortization           | 18,556   | 21,230       | 23,233       | 14.4                  | 9.4       |
| Total                                   | Ch\$ 303,211   | Ch\$ 322,776 | Ch\$ 333,413 | 6.5%                  | 3.3%      |



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*2006 and 2007.* Our operating expenses increased by 3.3% from 2006 to 2007. This increase reflected the impact of our compliance with the new regulations related to labor outsourcing (applied in 2007) which resulted in a reclassification of approximately Ch\$15,460 million of expenses from fees paid for personnel salaries and expenses as a consequence of the modification of our contract with our Promarket subsidiary. In addition, higher operating expenses resulted from our focus on expanding our business, transactional capabilities and service quality. We recorded (i) an increase in personnel salaries, primarily related to additional employees for new branches and call centers, (ii) an increase in communication and technology expenses (including amortization expenses), in order to provide improved productivity and service quality, and (iii) larger rental expenses related to the expansion of the Bank's branch network.

In addition, we incurred non-recurring expenses related to the merger with Citibank Chile and the sale of our foreign branches, which amounted to approximately Ch\$3,600 million in 2007. However, the increase in these expenses was partially offset by a decrease in advisory expenses from the foreign branches related to the U.S. compliance requirements.

*2005 and 2006.* Our operating expenses increased by 6.5% from 2005 to 2006, in line with our lending and transactional growth and product development activities. Higher operating expenses were primarily caused by (i) a 34% annual increase in advertising and marketing expenses oriented mainly to retail banking promotions of core revenue products, (ii) higher rental, communication, maintenance services and depreciation expenses, related to the significant expansion of our ATMs and branches during 2006 and (iii) higher computer services and software maintenance costs as well as an increase in amortizations and advisory expenses related to the implementation of new systems.

In addition, the 2.6% increase in salaries and personnel expenses was mainly due to the hiring of additional employees during 2006, principally related to the branch network, commercial areas, subsidiaries, and foreign branches. Higher expenses on salaries during 2006 were partially offset by lower severance expenses. As in 2005, we recorded non-recurring indemnities in 2006 due to a change in the organizational structure, which was made to adjust for client segmentation.

***Loss from Price-Level Restatement***

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

*2006 and 2007.* The loss from price-level restatement increased from Ch\$9,157 million in 2006 to Ch\$37,948 million in 2007, primarily as a result of the increase in the inflation rate used for adjustment purposes from 2.1% in 2006 to 7.4% in 2007 and, to a lesser extent, due to the increase in net non-monetary liabilities as a result of (i) the partial capitalization of 2006 net income and (ii) a capital increase largely carried out in the third quarter of 2007.

*2005 and 2006.* The loss from price-level restatement decreased from Ch\$12,556 million in 2005 to Ch\$9,157 million in 2006, primarily as a result of the decrease in the inflation rate used for adjustment purposes from 3.6% in 2005 to 2.1% in 2006.

***Income Tax***

The statutory corporate income tax rate in Chile was 17% in 2007, 2006 and 2005. We are also permitted under Law No. 19,396 to deduct dividend payments made to SAOS. Consequently, our effective tax rate is significantly lower than the statutory corporate income tax rate because of the deduction of such dividend payments from our taxable income. Additionally, but to a lesser extent, differences in the tax treatment for provisions on individual loans and for charge-offs for past-due loans have an impact on our effective tax rate. Finally, all real estate taxes paid on properties that are leased to customers are deductible from our taxable income.

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2006 and 2007. In 2007, we recorded a tax expense of Ch\$26,920 million as compared to a tax expense of Ch\$25,879 million in 2006. This increase was primarily attributable to the higher income tax base in 2007 as a result of a 14.3% increase in net income before taxes.

2005 and 2006. In 2006, we recorded a tax expense of Ch\$25,879 million as compared to a tax expense of Ch\$23,456 million in 2005. This increase was primarily attributable to a higher income tax base in 2006 as a result of a 6.3% increase in net income before taxes.

**Chilean and U.S. GAAP Reconciliation**

We prepare our audited consolidated financial statements in accordance with Chilean GAAP, which differs in certain significant respects from U.S. GAAP. See Note 29 to our audited consolidated financial statements for a description of the material differences between Chilean GAAP and U.S. GAAP, as they relate to us and our consolidated subsidiaries, reconciliation to U.S. GAAP of net income and shareholders' equity and a discussion of new accounting rules under U.S. GAAP. The following table sets forth net income and shareholders' equity for the years ended December 31, 2005, 2006 and 2007 under Chilean GAAP and U.S. GAAP:

|                                     | Year Ended December 31,                                |                |                |
|-------------------------------------|--|----------------|----------------|
|                                     | 2005   | 2006           | 2007           |
|                                     | (in millions of constant Ch\$ as of December 31, 2007) |                |                |
| Net income (Chilean GAAP)           | Ch\$ 198,174   | Ch\$ 209,696   | Ch\$ 242,288   |
| Net income (U.S. GAAP)              | 185,131  | 185,626        | 231,015        |
| Shareholders' equity (Chilean GAAP) | 849,946  | 896,393        | 1,051,393      |
| Shareholders' equity (U.S. GAAP)    | Ch\$ 1,567,794   | Ch\$ 1,585,672 | Ch\$ 1,719,621 |

Significant differences exist between our net income and shareholders' equity under Chilean GAAP as presented in Item 5. Operating and Financial Review and Prospects, and our net income and shareholders' equity under U.S. GAAP as presented in Note 29 to our audited consolidated financial statements.

Some differences are as follows:

Under Chilean GAAP, the merger with 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 under Chilean GAAP and we are considered to be the surviving entity. Under U.S. GAAP, the merger of the two banks was accounted for as a merger of entities under common control, as L.Q. Inversiones Financieras, a holding company beneficially owned by Quiñenco S.A., controlled both banks since March 27, 2001. Consequently, U.S. GAAP requires that we restate our U.S. GAAP historical financial statements to retroactively reflect the merger as if both banks had been combined since March 27, 2001.

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

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

Under Chilean GAAP, allowances for loan losses are calculated according to specific guidelines set by the Chilean Superintendency of Banks. 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. If we had applied U.S. GAAP, our net income would have decreased by Ch\$16,866 million and increased by Ch\$2,581 million in 2006 and 2007, respectively, and shareholders' equity would have increased by Ch\$25,169 million and Ch\$27,750 million in 2006 and 2007, respectively.

Under Chilean GAAP, until December 31, 2005, forward contracts were recorded at the exchange rate in force at the close of each month and initial differences generated by this type of operations were recognized as deferred assets or liabilities and amortized over the term of the related contract. All other derivative instruments were reported at their market value.

Beginning in 2006, as a result of the adoption of Circular N°3,345, under Chilean GAAP all financial derivative contracts, which include foreign currency and UF forwards, interest rate forwards, currency and interest rate swaps, currency and interest rate options and other financial derivative instruments, are recorded in the balance sheet at cost (including transaction costs) at inception and subsequently measured at their fair value. Derivative contracts are reported as an asset when their fair value is positive and as a liability when negative under the line item Derivative instruments.

Under U.S. GAAP, all derivative instruments are 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.

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Additionally, until 2005, Chilean accounting rules did not consider the existence of embedded derivatives and, therefore, were such derivatives were not reflected in the financial statements. Beginning 2006, certain derivatives embedded in other financial instruments are treated as separate derivatives when their risk and characteristics are not closely related to those of the main contract and such derivatives are not recorded at their fair value with their unrealized gains and losses included in income. Circular N°3,345 did not include service-type contracts when evaluating for embedded derivatives. For U.S. GAAP purposes, we separately measure embedded derivatives included in certain contracts as freestanding derivative instruments at their estimated fair values, recognizing changes in earnings when they occur.

These differences are explained in greater detail in Note 29 to our audited consolidated financial statements.

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**LIQUIDITY AND CAPITAL RESOURCES**

**Overview**

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

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

In addition, we are subject to a technical requirement applicable to Chilean banks pursuant to which we must hold a certain amount of assets in cash or in highly liquid instruments. This reserve requirement is equal to the amount by which the daily balance of deposits payable on demand, net of clearing, exceeds 2.5 times the amount of the bank's effective equity. Deposits payable on demand include:

deposits in checking accounts;

other demand deposits or obligations payable on demand and incurred in the ordinary course of business;

saving deposits that allow unconditional withdrawals that bear a stated maturity; and

other deposits unconditionally payable immediately.

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

The senior members of our financial division evaluate liquidity by projecting daily cash flows over the following 90 days to verify that adequate liquidity is maintained, in compliance with limits imposed by Chilean banking regulations and those set internally by us.

**Table of Contents****Cash Flows**

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

|   | Year Ended December 31,                                |              |              |
|---|--|--------------|--------------|
|   | 2005   | 2006         | 2007         |
|   | (in millions of constant Ch\$ as of December 31, 2007) |              |              |
| Net cash provided by operating activities | Ch\$ 472,635   | Ch\$ 491,531 | Ch\$ 387,072 |

*2006 and 2007.* Cash provided by operating activities decreased to Ch\$387,072 million in 2007 from Ch\$491,531 million in 2006, primarily as a result of a reduction in the volumes of trading investments.

*2005 and 2006.* Cash provided by operating activities increased to Ch\$491,531 million in 2006 from Ch\$472,635 million in 2005, primarily as a result of a positive net change in interest accruals in 2006 as compared to 2005.

|                                       | Year Ended December 31,                                |                  |                  |
|---------------------------------------|--|------------------|------------------|
|                                       | 2005   | 2006             | 2007             |
|                                       | (in millions of constant Ch\$ as of December 31, 2007) |                  |                  |
| Net cash used in investing activities | Ch\$ (1,342,990)                                       | Ch\$ (1,448,919) | Ch\$ (2,019,402) |

*2006 and 2007.* Cash used in investing activities increased to Ch\$2,019,402 million in 2007 from Ch\$1,448,919 million in 2006, primarily as a result of a 14.2% increase in the volume of our loan portfolio.

*2005 and 2006.* Cash used in investing activities increased to Ch\$1,448,919 million in 2006 from Ch\$1,342,990 million in 2005, primarily as a result of a 15.7% increase in the volume of our loan portfolio.

|   | Year Ended December 31,                                |                |                |
|---|--|----------------|----------------|
|   | 2005   | 2006           | 2007           |
|   | (in millions of constant Ch\$ as of December 31, 2007) |                |                |
| Net cash provided by financing activities | Ch\$ 623,334   | Ch\$ 1,565,562 | Ch\$ 1,161,215 |

*2006 and 2007.* The decrease in cash provided by financing activities from Ch\$1,565,562 million in 2006 to Ch\$1,161,215 million in 2007 was primarily related to an increase in saving accounts and time deposits as well as a decrease in short term borrowings.

*2005 and 2006.* The increase in cash provided by financing activities from Ch\$623,334 million in 2005 to Ch\$1,565,562 million in 2006 was primarily attributable to an increase in time and demand deposits and, to a lesser extent, to an increase in bonds issued by the Bank.

**Other Borrowings**

Our long-term and short-term borrowings are summarized below. In accordance with the guidelines established by the Chilean Superintendency of Banks, we do not present a classified balance sheet.

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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.

|  | Year Ended December 31, 2006 |                     |                       | Year Ended December 31, 2007 |                     |                       |
|--|------------------------------|---------------------|-----------------------|------------------------------|---------------------|-----------------------|
|  | Long-term                    | Short-term          | Total                 | Long-term                    | Short-term          | Total                 |
| (in millions of constant Ch\$ as of December 31, 2007) |                              |                     |                       |                              |                     |                       |
| Central Bank Credit lines for renegotiation of loans   | Ch\$ 885                     | Ch\$                | Ch\$ 885              | Ch\$ 513                     | Ch\$                | Ch\$ 513              |
| Mortgage finance bonds                                 | 512,982                      |                     | 512,982               | 397,333                      |                     | 397,333               |
| Bonds  | 595,288                      |                     | 595,288               | 772,801                      |                     | 772,801               |
| Subordinated bonds                                     | 435,982                      |                     | 435,982               | 446,395                      |                     | 446,395               |
| Borrowings from domestic financial institutions        |                              | 94,792              | 94,792                |                              | 73,947              | 73,947                |
| Foreign borrowings                                     | 342,792                      | 292,557             | 635,349               | 628,887                      | 153,981             | 782,868               |
| Investments sold under agreements to repurchase        |                              | 329,563             | 329,563               |                              | 301,979             | 301,979               |
| Other obligations                                      | 3,059                        | 25,329              | 28,388                | 4,870                        | 53,620              | 58,490                |
| <b>Total other interest bearing liabilities</b>        | <b>Ch\$ 1,890,988</b>        | <b>Ch\$ 742,241</b> | <b>Ch\$ 2,633,229</b> | <b>Ch\$ 2,250,799</b>        | <b>Ch\$ 583,527</b> | <b>Ch\$ 2,834,326</b> |

**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 an average real annual interest rate of 3.70% as of December 31, 2007. The maturities of the outstanding amounts are as follows:

|  | As of December 31, 2007<br>(in millions of constant Ch\$ as of<br>December 31, 2007) |            |
|--|--|------------|
| Due within 1 year  | Ch\$   | 513        |
| 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  |  |            |
| <b>Total long-term (Credit lines for renegotiation of loans)</b> |  | <b>513</b> |
| <b>Total short-term (Other Central Bank borrowings)</b>          |  |            |
| <b>Total Central Bank borrowings</b>                             | <b>Ch\$</b>  | <b>513</b> |

**Table of Contents*****Mortgage finance bonds***

Mortgage finance bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and carry a weighted average annual interest rate of 4.04% as of December 31, 2007.

The maturities of outstanding mortgage finance bond amounts as of December 31, 2007 are as follows:

|                                      | <b>As of December 31, 2007</b><br><b>(in millions of constant Ch\$ as of</b><br><b>December 31, 2007)</b> |                |
|--------------------------------------|---|----------------|
| Due within 1 year                    | Ch\$  | 59,948         |
| Due after 1 year but within 2 years  |   | 44,876         |
| Due after 2 years but within 3 years |   | 43,623         |
| Due after 3 years but within 4 years |   | 41,335         |
| Due after 4 years but within 5 years |   | 37,839         |
| Due after 5 years                    |   | 169,712        |
| <b>Total mortgage finance bonds</b>  | <b>Ch\$</b>   | <b>397,333</b> |

***Bonds***

Our bonds are linked to the UF Index and carry an average real annual interest rate of 3.50% as of December 31, 2007, 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.

The maturities of outstanding bond amounts as of December 31, 2007 are as follows:

|                                      | <b>As of December 31, 2007</b><br><b>(in millions of constant Ch\$ as of</b><br><b>December 31, 2007)</b> |                |
|--------------------------------------|---|----------------|
| Due within 1 year                    | Ch\$  | 23,580         |
| Due after 1 year but within 2 years  |   | 146,400        |
| Due after 2 years but within 3 years |   | 163,066        |
| Due after 3 years but within 4 years |   | 111,193        |
| Due after 4 years but within 5 years |   | 92,111         |
| Due after 5 years                    |   | 236,451        |
| <b>Total bonds</b>                   | <b>Ch\$</b>   | <b>772,801</b> |

Between March and November 2007, we carried out a common bond issuance in *unidades de fomento* divided into series S, U and W. The common bonds issued in series S and U (comprising a total amount of Ch\$113,730 million (historical)), have a 10-year maturity term and interest rates of 3.2% and 3.7%, respectively. Series W common bonds were issued for an amount of Ch\$77,514 million (historical), with a maturity term of five years and a 3.1% interest rate.

**Table of Contents****Subordinated bonds**

Our currently outstanding subordinated bonds are linked to the UF index with interest and principal payments due semi-annually. The discount on the issuance of the currently outstanding subordinated bonds is amortized over the life of the bond. As of December 31, 2007, the effective real interest rate was 6.27% taking into consideration the discount on issuance.

The bonds are intended to finance loans having a maturity greater than one year. As of December 31, 2007 the outstanding maturities of the bonds, which are considered long-term, are as follows:

|                                      | <b>As of December 31, 2007</b><br><b>(in millions of constant Ch\$ as of</b><br><b>December 31, 2007)</b> |                |
|--------------------------------------|---|----------------|
| Due within 1 year                    | Ch\$  | 31,924         |
| Due after 1 year but within 2 years  |   | 21,797         |
| Due after 2 years but within 3 years |   | 23,702         |
| Due after 3 years but within 4 years |   | 26,688         |
| Due after 4 years but within 5 years |   | 26,689         |
| Due after 5 years                    |   | 315,595        |
| <b>Total subordinated bonds</b>      | <b>Ch\$</b>   | <b>446,395</b> |

In April 2007, Banco de Chile issued subordinated bonds with a 24-year maturity term. The subordinated bonds were issued in unidades de fomento and its proceeds amounted to Ch\$36,919 million (historical), with an annual interest rate of 4.5%.

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

**Borrowings from domestic financial institutions**

Borrowings from domestic financial institutions, which are used to fund our general activities, carry a weighted average annual real interest rate of 4.91% as of December 31, 2007 and have the following outstanding maturities as of December 31, 2007:

|  | <b>As of December 31, 2007</b><br><b>(in millions of constant Ch\$ as of</b><br><b>December 31, 2007)</b> |                             |
|--|---|-----------------------------|
| Due within 1 year  | Ch\$  |                             |
| 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  |   |                             |
| <b>Total long-term</b>                                       |   |                             |
| <b>Total short-term</b>                                      | <b>Ch\$</b>   | <b>73,947<sup>(1)</sup></b> |
| <b>Total borrowings from domestic financial institutions</b> | <b>Ch\$</b>   | <b>73,947</b>               |

(1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2007 had remaining maturities of less than one year.



**Table of Contents****Foreign borrowings**

We have short-term and long-term borrowings from foreign banks. The outstanding maturities of these borrowings as of December 31, 2007 are as follows:

|                                      | <b>As of December 31, 2007</b><br><b>(in millions of constant Ch\$ as of</b><br><b>December 31, 2007)</b> |                |
|--------------------------------------|---|----------------|
| Due within 1 year                    | Ch\$  | 611,320        |
| Due after 1 year but within 2 years  |   | 9,005          |
| Due after 2 years but within 3 years |   | 8,562          |
| Due after 3 years but within 4 years |   |                |
| Due after 4 years but within 5 years |   |                |
| Due after 5 years                    |   |                |
| <b>Total long-term</b>               |   | <b>628,887</b> |
| <b>Total short-term</b>              |   | <b>153,981</b> |
| <b>Total foreign borrowings</b>      | <b>Ch\$</b>   | <b>782,868</b> |

Each of these loans is denominated in foreign currency and is principally used to fund our foreign trade loans and carry an average annual nominal interest rate of 1.9% as of December 31, 2007.

**Other obligations**

|  | <b>As of December 31,</b><br><b>2006</b> <b>2007</b><br><b>(in millions of constant Ch\$ as of</b><br><b>December 31, 2007)</b> |                    |
|--|---|--------------------|
| <b>Other long-term obligations:</b>      |   |                    |
| Obligations with Chilean government      | Ch\$ 3,059  | Ch\$ 4,870         |
| <b>Total other long-term obligations</b> | <b>3,059</b>  | <b>4,870</b>       |
| Other short-term obligations             | 25,329  | 53,620             |
| <b>Total other obligations</b>           | <b>Ch\$ 28,388</b>  | <b>Ch\$ 58,490</b> |

As of December 31, 2007, other obligations had the following maturities:

|                                      | <b>As of December 31, 2007</b><br><b>(in millions of constant Ch\$ as of</b><br><b>December 31, 2007)</b> |       |
|--------------------------------------|---|-------|
| Due within 1 year                    | Ch\$  | 500   |
| Due after 1 year but within 2 years  |   | 746   |
| Due after 2 years but within 3 years |   | 857   |
| Due after 3 years but within 4 years |   | 737   |
| Due after 4 years but within 5 years |   | 616   |
| Due after 5 years                    |   | 1,414 |

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|                         |      |                       |
|-------------------------|------|-----------------------|
| Total long-term         |      | 4,870                 |
| Total short-term        |      | 53,620 <sup>(1)</sup> |
| Total other obligations | Ch\$ | 58,490                |

- (1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2007 had remaining maturities of less than one year.

**Table of Contents****Asset and Liability Management**

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

**Funding**

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2005, 2006 and 2007, in each case together with the related average nominal interest rates paid thereon:

|  | Year Ended December 31, |                              |                            |                        |                              |                            |                        |                              |                            |
|--|-------------------------|------------------------------|----------------------------|------------------------|------------------------------|----------------------------|------------------------|------------------------------|----------------------------|
|  | 2005                    |                              |                            | 2006                   |                              |                            | 2007                   |                              |                            |
|  | Average<br>Balance      | % of<br>Total<br>Liabilities | Average<br>Nominal<br>Rate | Average<br>Balance     | % of<br>Total<br>Liabilities | Average<br>Nominal<br>Rate | Average<br>Balance     | % of<br>Total<br>Liabilities | Average<br>Nominal<br>Rate |
| (in millions of constant Ch\$ as of December 31, 2007, except for percentages) |                         |                              |                            |                        |                              |                            |                        |                              |                            |
| Non-interest bearing demand deposits   | Ch\$ 2,396,876          | 22.7%                        |                            | Ch\$ 2,200,494         | 18.9%                        |                            | Ch\$ 2,317,379         | 18.2%                        |                            |
| Time deposits  | 4,313,976               | 40.8                         | 4.3%                       | 5,479,046              | 47.1                         | 5.1%                       | 6,009,067              | 47.3                         | 7.0%                       |
| Savings accounts   | 152,714                 | 1.4                          | 3.8                        | 149,209                | 1.3                          | 2.1                        | 136,098                | 1.1                          | 6.5                        |
| Mortgage finance bonds   | 676,348                 | 6.4                          | 8.8                        | 532,761                | 4.6                          | 7.4                        | 428,383                | 3.4                          | 11.9                       |
| Central Bank borrowings  | 34,895                  | 0.3                          | 3.3                        | 13,892                 | 0.1                          | 5.4                        | 15,408                 | 0.1                          | 5.5                        |
| Contingent liabilities   | 675,889                 | 6.4                          |                            | 889,554                | 7.7                          |                            | 1,059,405              | 8.3                          |                            |
| Other non-interest bearing liabilities   | 398,775                 | 3.8                          |                            | 424,531                | 3.7                          |                            | 491,479                | 3.9                          |                            |
| Other interest bearing liabilities   | 1,929,795               | 18.2                         | 4.6%                       | 1,938,102              | 16.6                         | 4.0%                       | 2,253,633              | 17.7                         | 6.7%                       |
| <b>Total liabilities</b>   | <b>Ch\$ 10,579,268</b>  | <b>100.0%</b>                |                            | <b>Ch\$ 11,627,589</b> | <b>100.0%</b>                |                            | <b>Ch\$ 12,710,852</b> | <b>100.0%</b>                |                            |

Our most important source of funding is our customer deposits, which consist primarily of peso-denominated non-interest bearing demand deposits and peso- and UF-denominated interest bearing time deposits. Non-interest bearing demand deposits represented 18.2% of our average total liabilities in 2007, and are our least expensive source of funding. Time deposits and mortgage finance bonds represented 50.7% of our average liabilities in 2007 and 51.7% of our average liabilities in 2006, respectively.

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

A sound liquidity strategy assures the funding of business opportunities and the meeting of financial obligations when they are due. To accomplish these goals, we manage both the liability side as well as the asset side of our balance sheet and have a contingency funding plan for maintaining liquidity under adverse market conditions.



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On the liability side, two kinds of limits control the diversification of our funding sources. The first limit establishes that: (1) the total deposits and repurchase agreements taken from any one institutional investor do not exceed a certain percentage of current liabilities; and (2) the sum of deposits and repurchase agreements taken from all institutional investors do not exceed a certain percentage of current liabilities. The second limit is a 30-day liquidity ratio, which limits volatile liabilities to a percentage of our liquid assets. Liquid assets are composed of low risk loans that are due within 30 days and short-term financial instruments.

On the asset side, we maintain a short-term financial investment portfolio composed of investments with a high degree of liquidity due to the depth of the market and the low bid-offer spreads.

**Table of Contents****OFF-BALANCE SHEET ARRANGEMENTS**

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

We provide customers with off balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since substantial portions of these commitments are expected to expire without our having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. The amounts of these loan commitments were Ch\$3,455,580 million (U.S.\$6,969 million) and Ch\$3,558,267 million (U.S.\$7,177 million) as of December 31, 2006 and 2007, respectively. The amounts of subscribed leasing contracts were Ch\$102,733 million (U.S.\$207 million) and Ch\$96,166 million (U.S.\$194 million) as of December 31, 2006 and 2007, respectively.

Interest rate and cross-currency swaps, which are entered into in order to hedge the foreign investment portfolio, are recorded at their estimated fair market values. See Note 13 to our audited financial statements.

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

**Financial Guarantees**

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

|                           | <b>As of December 31,<br/>2007</b>                                    |
|---------------------------|---|
|                           | <b>(in millions of<br/>constant Ch\$ as of<br/>December 31, 2007)</b> |
| Performance bonds         | Ch\$ 898,321  |
| Foreign office guarantees | 48,685  |
| Standby letters of credit | 103,058   |
| <b>Total</b>              | <b>Ch\$ 1,050,064</b>   |

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

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The expiration of guarantees per period is as follows:

|  | Due within<br>1 year | Due after 1<br>year but<br>within 3<br>years | Due after<br>3 years but<br>within 5<br>years | Due after<br>5 years | Total          |
|--|----------------------|--|---|----------------------|----------------|
| (in millions of constant Ch\$ as of December 31, 2007) |                      |  |   |                      |                |
| Performance bonds                                      | Ch\$ 517,934         | Ch\$ 362,074                                 | Ch\$ 16,512                                   | Ch\$ 1,801           | Ch\$ 898,321   |
| Foreign office guarantees                              | 48,685               |  |   |                      | 48,685         |
| Standby letters of credit                              | 43,658               | 42,928                                       | 16,316  | 156                  | 103,058        |
| Total  | Ch\$ 610,277         | Ch\$ 405,002                                 | Ch\$ 32,828                                   | Ch\$ 1,957           | Ch\$ 1,050,064 |

**TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The following tables set forth our contractual obligations and commercial commitments by time remaining to maturity. As of December 31, 2007, the scheduled maturities of our contractual obligations, including accrued interest, were as follows:

|   | Due within<br>1 year | Due after 1<br>year but<br>within 3<br>years | Due after<br>3 years but<br>within 5<br>years | Due after<br>5 years | Total           |
|---|----------------------|--|---|----------------------|-----------------|
| (in millions of constant Ch\$ as of December 31, 2007)    |                      |  |   |                      |                 |
| <b>Contractual Obligations</b>                            |                      |  |   |                      |                 |
| Deposit and other term liabilities <sup>(1)</sup>         | Ch\$ 6,408,912       | Ch\$ 305,114                                 | Ch\$  | Ch\$                 | Ch\$ 6,714,026  |
| Mortgage finance bonds                                    | 59,948               | 88,499                                       | 79,174  | 169,712              | 397,333         |
| Bonds issued  | 55,504               | 354,965                                      | 256,681                                       | 552,046              | 1,219,196       |
| Central Bank credit lines from renegotiations<br>of loans | 513                  |  |   |                      | 513             |
| Borrowings from domestic financial<br>institutions        | 73,947               |  |   |                      | 73,947          |
| Foreign borrowings  | 765,301              | 17,567                                       |   |                      | 782,868         |
| Other obligations   | 54,120               | 1,603  | 1,353   | 1,414                | 58,490          |
| Lease contracts   | 8,725                | 13,384                                       | 6,788   | 8,810                | 37,707          |
| Services contracts  | 94,534               | 135,119                                      | 121,372                                       | 2,107,124            | 2,458,149       |
| Investments sold under agreements to<br>repurchase        | 301,979              |  |   |                      | 301,979         |
| Total   | Ch\$ 7,823,483       | Ch\$ 916,251                                 | Ch\$ 465,368                                  | Ch\$ 2,839,106       | Ch\$ 12,044,208 |

(1) Excludes demand accounts and savings accounts.

As of December 31, 2007, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

|  | Due within<br>1 year | Due after 1<br>year but<br>within 3<br>years | Due after 3<br>years but<br>within 5<br>years | Due after<br>5 years | Total |
|--|----------------------|--|---|----------------------|-------|
| (in millions of constant Ch\$ as of December 31, 2007) |                      |  |   |                      |       |

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**Commercial Commitments**

|                                    |              |              |             |            |                |
|------------------------------------|--------------|--------------|-------------|------------|----------------|
| Letters of Credit                  | Ch\$ 217,642 |              |             |            | Ch\$ 217,642   |
| Guarantees                         | 610,277      | Ch\$ 405,002 | Ch\$ 32,828 | Ch\$ 1,957 | 1,050,064      |
| Total other commercial commitments | Ch\$ 827,919 | Ch\$ 405,002 | Ch\$ 32,828 | Ch\$ 1,957 | Ch\$ 1,267,706 |

**Table of Contents****Item 6. Directors, Senior Management and Employees****DIRECTORS AND SENIOR MANAGEMENT****Directors**

Our administration is conducted by our board of directors, which, in accordance with our *estatutos*, or bylaws, consists of eleven directors and two alternate directors. The entire board of directors is elected every three years. Our current board of directors was elected in March 2008 and their term expires in March 2011. Our alternate directors were appointed in March 2008. The current chairman of the board, Pablo Granifo, was elected in March 2008.

Cumulative voting is permitted for the election of directors. Our chairman and our chief executive officer are appointed by our board of directors and hold their offices at its discretion. Scheduled meetings of our board of directors are held at least twice a month. Extraordinary board of directors meetings may be called by the chairman, when requested by a majority of the directors, or, in limited circumstances, when requested by one director.

Our current directors are as follows:

| <b>Director</b>         | <b>Position</b>    | <b>Age</b> |
|-------------------------|--------------------|------------|
| Pablo Granifo L.        | Chairman           | 49         |
| Andronico Luksic C.     | Vice chairman      | 54         |
| Jorge Awad M.           | Director           | 62         |
| Jacob Ergas E.          | Director           | 73         |
| Fernando Quiroz R.      | Director           | 52         |
| Guillermo Luksic C.     | Director           | 52         |
| Raul Anaya E.           | Director           | 53         |
| Gonzalo Menendez D.     | Director           | 59         |
| Juan Andres Fontaine T. | Director           | 54         |
| Francisco Perez M.      | Director           | 49         |
| Jaime Estevez V.        | Director           | 61         |
| Rodrigo Manubens M.     | Alternate director | 49         |
| Thomas Fürst F.         | Alternate director | 77         |

*Pablo Granifo L.* was elected as the chairman of our board of directors in 2007. He was our chief executive officer from 2001 to 2007. He was the chief executive officer of Banco de A. Edwards from 2000 to 2001, a commercial manager at Banco Santiago from 1995 to 1999 and a corporate manager at Banco Santiago from 1999 to 2000. Mr. Granifo is chairman of the board of directors of Banchile Asesoría Financiera S.A., Socofin S.A., Banchile Securitizadora S.A., Banchile Factoring S.A., Banchile Administradora General de Fondos S.A. and chairman of the executive committee of Banchile Corredores de Seguros Limitada. He is also director of Banchile Trade Services Limited. He holds a degree in business from the Pontificia Universidad Católica de Chile.

*Andrónico Luksic C.* was reelected as a Director and Vice Chairman of our board of directors in 2008, a position he has held consecutively since 2002. Mr. Luksic is Vice Chairman of Quiñenco S.A. and a member of the board of directors at Compañía Cervecerías Unidas S.A., Manufacturas de Cobre Madeco S.A., Industria Nacional de Alimentos S.A., Sociedad de Fomento Fabril (SOFOFA) and Bolsa de Comercio de Santiago. He also serves on the International Business Leaders Advisory Council of Mayor Han Zheng of the Municipal Government of Shanghai, the Chairman's Advisory Council at the Council of the Americas, the Advisory Board to the Panama Canal Authority, the Asia-Pacific Economic Cooperation Business Advisory Council and is a Triennium Participant of the Trilateral Commission. He is a member of the Board of Trustees at Babson College, the Advisory Committee to the David Rockefeller Center for Latin American Studies at Harvard University, as well as the Global Advisory Board of Harvard Business School. He was Chairman of the board of directors of Banco O Higgins and subsequently Chairman of the board of directors of Banco Santiago until May 1999. Mr. Luksic was Director and Chairman of the board of directors of Banco de A. Edwards from September 1999 to December 2001. Mr. Andrónico and Mr. Guillermo Luksic are brothers.

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*Jorge Awad M.* has been a member of our board of directors since 1996. From 1989 to 1996, he was a member of the board of directors of Banco de Santiago. Mr. Awad has been the chairman of the board of directors of Lan Airlines S.A. since 1994 and is a member of the board of directors of several other companies, including Envases del Pacifico S.A., Universidad de Talca, and Icare. Previously, Mr. Awad was a director of Codelco Chile, Television Nacional de Chile, Laboratorio Chile S.A and other companies. He is also a professor of business entrepreneurship at the Universidad de Chile, from which he holds a degree in commercial engineering.

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

*Fernando Quiroz R.* is chief executive officer of Markets & Banking Latin America, Chairman of Acciones y Valores Banamex (Accival), Deputy President of Banamex and Head of Specialized Banking in Banamex. He is member of Citi's Management Committee and of Citi's Corporate and Investment Bank Planning Group. Prior to his current position, Mr. Quiroz was the head of Strategy and Corporate Development of Banamex and Citi Latin America. He began his career at Banamex in 1979, holding various positions in the Consumer, International and Investment Banking Divisions, and Strategic Planning. Mr. Quiroz is a member of the board of directors of Banchile Asesorías Financieras S.A., Banchile Factoring S.A. and Banchile Corredora de Bolsa S.A. He also served as chief economist of Banamex.

*Guillermo Luksic C.* has been a member of our board of directors since 2001 and was previously the Vice Chairman of our board of directors from March 2001 to March 2002. Mr. Luksic is Chairman of the board of directors of Quiñenco S.A., Compañía Cervecerías Unidas S.A., Viña San Pedro S.A., CNT Telefonica del Sur S.A. and Madeco S.A. Since 2005, he also serves as a member of the board of directors of Antofagasta plc. Mr. Luksic is an active member of the Center of Public Studies and a member of the board of directors of Universidad Finis Terrae. Mr. Luksic is a brother of Mr. Andronico Luksic.

*Raúl Anaya E.* is the Chief Executive Officer of Latin America, Citigroup Global Consumer Group. He is responsible for Consumer Operations Retail Banking, Cards and Consumer Finance. Mr. Anaya was named to this position in December 2005. He previously served as Retail Head for Latin America since February 2005. Earlier, Mr. Anaya was Executive Director in Charge of Consumer Assets at Banamex in Mexico, responsible for Mortgages, Personal Loans and Auto Financing from August 2003 to January 2005. Prior to this position, Mr. Anaya was the Divisional Director in Charge of the Center Metropolitan Retail Banking Division in Banamex. From May 1999 to January 2002, Mr. Anaya was Chairman and CEO of Banco Bansud S.A. (formerly a wholly owned subsidiary of Banamex) in Argentina. Mr. Anaya joined Citibank at the Banamex New York Agency in October 1987 and subsequently became General Manager of Banamex Los Angeles Agency, Executive VP of the Corporate and International Banking Division at California Commerce Bank, General Manager of Banamex Houston Agency and General Manager of Banamex New York Agency with responsibility for the U.S. and Canada offices. Mr. Anaya was a member of the Board of Directors of California Commerce Bank from 1996 to 2001.

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*Gonzalo Menendez D.* has been a member of our board of directors since 2001. He is also the chairman of the board of directors of Inversiones Vita S.A. and, Banchile Corredores de Bolsa S.A. and a member of the boards of directors of several other companies, including Banchile Asesorias Financiera S.A., Banchile Seguros de Vida S.A., Compañía Nacional de Telefonos, Telefonica del Sur S.A., Minera El Tesoro, Compañía de Telefonos de Coyhaique S.A., Quiñenco S.A., Antofagasta plc., Minera Michilla S.A., Mining Group Antofagasta Minerals S.A., Antofagasta Railway, Minera Los Pelambres, Aguas de Antofagasta S.A. and Minera Esperanza. He is also Vice Chairman of Fundacion Andronico Luksic A. and Fundación Pascual Baburizza. Previously, Mr. Menendez served as chief executive officer of Antofagasta Railway, Banco O Higgins and Empresas Lucchetti. Since 1990, he has been a director and is now the chairman of the board of directors of the Latin American Export Bank. Mr. Menendez was a member of the board of directors and the executive committee of Banco Santiago and a member of the board of directors of Banco de A. Edwards. Mr. Menendez was a professor of finance and Chilean economic and business policy at the Universidad de Chile. He holds a degree in business administration and accounting from the Universidad de Chile.

*Juan Andrés Fontaine* holds degrees in Economics from Pontificia Universidad Católica de Chile and University of Chicago (MA). He has been Research Director at the Central Bank of Chile, a professor at some of the major universities of Chile, a visiting professor at UCLA, an author of several publications and an international consultant. Currently, he is partner and chief executive of Fontaine & Paúl Consultores, a firm that specializes in economic and financial consultancy in Chile and abroad. He is a board member of Quiñenco S.A., Mall Plaza Group, Socovesa S.A, Bolsa Electrónica de Chile and Transelec, and a professor at Pontificia Universidad Católica de Chile.

*Francisco Perez M.* has been a member of our board of directors since 2001. Since 1998, Mr. Perez has been the chief executive officer of Quiñenco S.A. He was formerly the chief executive officer of Compañía Cervecerias Unidas S.A., of which he is still a director. He is also a member of the board of directors of Banchile Corredores de Bolsa S.A. Prior to 1991, Mr. Perez was chief executive officer of Citicorp-Chile and also was Vice President of Bankers Trust in Chile. Mr. Perez holds a degree in business administration from the Pontificia Universidad Católica de Chile and a master's degree in business administration from the University of Chicago.

*Jaime Estevez V.* has been a member of our board of directors since 2007. Presently, he is also a member of the board of directors of Endesa Chile. Previously, Mr. Estevez served as the Chairman of BancoEstado, a state bank. Additionally, he has served as a Director on the boards of AFP Provida and AFP Proteccion, two Chilean private funds. Mr. Estevez served as Minister of Public Works and Minister of Transport and Telecommunications and was a Congressman and President of the Lower Chamber of Congress. Mr. Estevez holds a degree in economics from the Universidad de Chile.

*Rodrigo Manubens M.* has been a member of our board of directors since 2001. Mr. Manubens was a member of the board of directors of Banco de A. Edwards from 1999 until 2001. From 1985 to 1999, Mr. Manubens was a member of the board of directors of Banco O Higgins and continued in that role when it merged into Banco Santiago. From 1995 to 1999 he was Chairman of Banco Tornquist in Argentina and a member of the board of directors of Banco Sur in Peru and Banco Asuncion in Paraguay. Mr. Manubens also served as a director and Chairman of Endesa Chile S.A. He is a member of the board of directors of Banchile Compañía de Seguros de Vida S.A., a member of the board of directors of the retail consortium Unimarc-Deca-Monserrat, a member of the executive committee of Banchile Corredores de Seguros Limitada and the Director of the Center for International Management at the Adolfo Ibañez Graduate School of Business. Mr. Manubens holds a degree in business from Universidad Adolfo Ibañez and a Master's of Science from the London School of Economics and Political Science.

*Thomas G. Fürst* has been a member of our board of directors since 2004. He is also member of the board of directors of Banchile Administradora General de Fondos S.A. Previously, Mr. Fürst was vice chairman of the board of directors at Compañía Cervecerias Unidas S.A. and a member of the board of directors of several other companies, including Embotelladoras Chilenas

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Unidas S.A., Viña Dassault-San Pedro S.A, Southern Breweries Establishment, CCU Argentina S.A. and Compañía Industrial Cervecería S.A. (CICSA). Mr. Fürst was a founder and member of the board of directors of Parque Arauco and he is partner and member of the board of directors of Grupo Plaza. Presently, he is a member of the board of directors of Plaza Vespucio S.A., Plaza Oeste S.A., Plaza del Trebol S.A. (Concepcion), Plaza La Serena S.A. (La Serena), Plaza Tobalaba, Plaza Los Angeles (Los Angeles), Plaza Antofagasta (Antofagasta) and Banchile Administradora General de Fondos S.A. Mr. Fürst studied civil construction at Pontificia Universidad Católica de Chile.

**Senior Management**

Our current executive officers are as follows

| <b>Executive Officers</b> | <b>Position</b>  | <b>Age</b> |
|---------------------------|--|------------|
| Fernando Cañas B.         | Chief executive officer  | 58         |
| Pedro Samhan. E.          | Chief financial officer  | 57         |
| Nelson Rojas P.           | General legal counsel  | 54         |
| Fernando Concha U.        | Manager Corporate and investment division                      | 49         |
| Julio Guzman H.           | Manager Corporate banking division                             | 54         |
| Mauricio Baeza L.         | Manager Company and market risk division                       | 45         |
| Alejandro Herrera A.      | Manager Individual banking and companies division              | 51         |
| Marcelo Caracci L.        | Manager Operations and technology division                     | 58         |
| Jennie E. Coleman A.      | Manager Human resources division                               | 54         |
| Arturo Tagle Q.           | Manager Strategic development division                         | 49         |
| Gonzalo Rios D.           | Manager Marketing division                                     | 39         |
| Pedro Bolados M.          | Manager Risk control division                                  | 50         |
| Eduardo Ebensperger O.    | Manager Wholesale, large corporations and real estate division | 43         |
| Juan Cooper A.            | Manager Consumer division                                      | 47         |
| Felipe Echaiz B.          | Manager Global compliance division                             | 40         |
| Alfred Exss L.            | Manager Products and services                                  | 48         |
| Andres Bucher. C.         | Manager Investment banking division                            | 44         |
| Juan C. Cavallini         | Manager Investment banking division                            | 48         |
| Mario Farren R.           | Manager Treasury division                                      | 47         |
| Julio Ramirez G.          | Manager Individual credit risk division                        | 41         |
| Oscar Mehech C.           | Manager Regulatory policies division                           | 43         |

*Fernando Cañas B.* was appointed our chief executive officer in 2007. He was the chairman of our board of directors from 2005 to 2007. Mr. Cañas joined Banco Santiago in 1977, beginning his financial services career, and participated in its development and management until 1983. Mr. Cañas returned to Banco Santiago in 1997 as vice chairman of its board of directors and became chief executive officer in 1998. Mr. Cañas was chief executive officer at Banco O Higgins prior to its merger with Banco Santiago. He served as chairman of the board of directors at Banco Tornquist in Argentina, a director on the board of directors of Banco del Sur in Peru. In 2001, Mr. Cañas became chairman of the board of directors for Latin America and the Caribbean of MasterCard International. In 2002, he was chief executive officer of Banco Santander Chile, and, in 2003, he became the general director and head of payment methods for Latin America Banco Santander Central Hispano, based in Spain. Currently, Mr. Cañas is a member of the board of directors of Banchile Factoring S.A., Banchile Asesoría Financiera S.A., Banchile Securitizadora S.A. Socofin S.A. and the executive committee of Banchile Corredores Seguros Limitada. Mr. Cañas has a degree in Business Administration from the Universidad de Chile.

*Pedro Samhan E.* was appointed our chief financial officer on January 1, 2008. Prior to his appointment, Mr. Samhan has been the chief financial officer of Citigroup Chile for several years. He was a board member of Cruz Blanca Seguros de Vida (1994 – 1997), AFP Habitat (1996 – 2006) and Compañía Minera Las Luces (1994 – 1996). Mr. Samhan was chief financial officer of Citicorp for Caribbean and Central America (1990 – 1993) and Investment Banking Head of Citicorp Chile (1988 – 1990). Mr. Samhan holds a degree in Civil Industrial Engineering from the Universidad de Chile.

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*Nelson Rojas P.* has been our General Counsel and the secretary of our board of directors since 2004. In 2002, he joined us as Deputy General Counsel. Mr. Rojas joined Banco de A. Edwards in 1987 and was the general legal counsel and secretary of the board of directors of Banco de A. Edwards from 1997 until 2002. He is also vice president of the legal affairs committee of the Chilean Bank Association. Mr. Rojas holds a degree in law from the Universidad de Chile.

*Fernando Concha U.* was appointed as Corporate and Investment Bank Head of Banco de Chile on January 2008. Mr. Concha was the Citigroup Country Officer for Chile since April 2006 after working in Banamex-Citigroup, Mexico City for over eight years in different capacities. His last position was as Mexico Regional Treasurer. Throughout his professional career, Mr. Concha has occupied positions of leadership, serving as Country Treasurer and Capital Market Head with Citibank in Mexico and Divisional Treasurer with Citibank Latin America North Division in Miami. Prior to his international assignment, Mr. Concha was the Investment Bank Head with Citibank Chile. From 1986 to 1992, he worked as a Senior Investment Officer for AFP Provida. He was also appointed Board Member of the Mexican Derivatives Market, Mex-Der, and President of the Brokerage House, Citibank Mexico. He is also currently Vice President of Amcham and Bolsa Electrónica de Chile, Bolsa de Valores. Mr. Concha is also a member of the board of directors of Banchile Factoring, S.A. and Banchile Securitizadora, S.A. Mr. Concha has a degree in Business Administration from the Universidad Católica de Chile in Santiago and has received training in different Executives Programs in the U.S., Europe and Latin America.

*Julio Guzman H.* has managed our corporate and international division since 2002. He joined Banco de A. Edwards in 1992 and was the general manager from September 2001 to December 2001. Mr. Guzman is a member of the board of directors of Banchile Securitizadora S.A. and he is an alternate director of Banchile Trade Services Limited. He holds a degree in business from the Pontificia Universidad Católica de Chile.

*Mauricio Baeza L.* has been the manager of the credit risk division since December 2005. Mr. Baeza joined us in 1997 and was manager of the risk division during 2001 in Banco de A. Edwards. He was Risk manager at Banco Santiago from 1993 to 1997 and a member of the board of directors of Santiago Administradora de Fondos de Inversion. Mr. Baeza is also a member of the investment committee of Banchile Fondo Inmobiliario. Mr. Baeza holds a degree in civil engineering from the Pontificia Universidad Católica de Chile.

*Alejandro Herrera A.* has been the manager of the individual banking and branches division since 2002. Since 2006, he has also been the manager of medium market banking. He served as the manager of the individual banking and branches division at Banco de A. Edwards from 2000 to 2001 and at Banco Sudamericano from 1996 to 1999, in addition to serving as the chief executive officer of Administradora de Fondos Mutuos Santiago S.A. from 1994 to 1995 and as branch manager at Banco Santiago for the Santiago region. Mr. Herrera is a member of the board of directors of Banchile Administradora General de Fondos S.A. and Socofin S.A. and a member of the executive committee of Banchile Corredores de Seguros Limitada. He holds a degree in business from the Pontificia Universidad Católica de Valparaíso.

*Marcelo Caracci L.* has been the manager of the operations and technology division since 2001. Prior to that time, Mr. Caracci was founder and director of two technology companies, Sonda Bancos and Sonda Peru. He participated actively in the development and startup of Redbanc S.A., Transbank S.A., Servipag Limitada and Deposito Central de Valores S.A. Mr. Caracci holds a degree in civil engineering from the Pontificia Universidad Católica de Chile.

*Jennie E. Coleman A.* joined us as manager of the human resources division in March 2003. Previously, she was the manager of the human resources division, manager of organizational development and training chief executive at Banco Santiago, where she worked for more than 23 years. Mrs. Coleman holds a degree in public administration from the Universidad de Chile.

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*Arturo Tagle Q.* has been the manager of the planning and research division since 2002. Mr. Tagle joined us in 1995. He was general manager of the Chilean Bankers Association from 1990 to 1994 and Director of Research at the Chilean Superintendency of Banks from 1984 to 1989. Mr. Tagle is the chief executive officer of Sociedad Matriz del Banco de Chile S.A. and SAOS. He holds a degree in commercial engineering from the Pontificia Universidad Católica de Chile and a master's degree in business administration from the University of Chicago.

*Gonzalo Rios D.* has been the manager of the marketing division since November 2005. He was the marketing manager of Falabella's financial retail division from 2002 to 2005 and manager of non-store retail operations of Falabella Argentina from 2000 to 2002. He was a business consultant at McKinsey & Company from 1997 to 2000 and previously worked for IBM Argentina as a sales manager. Mr. Rios is a member of the executive committee of Banchile Corredores de Seguros Limitada. He holds a degree in electrical engineering from Instituto Tecnológico de Buenos Aires and a MBA from the Massachusetts Institute of Technology.

*Pedro Bolados M.* has been the manager of the risk control division since January 2002 and was previously comptroller of Banco de A. Edwards. He joined Banco de A. Edwards in 1992 after holding the position of corporate audit vice president at Citibank, N.A. in Latin America. Mr. Bolados holds an executive master's degree in business administration from the Pontificia Universidad Católica de Chile.

*Eduardo Ebensperger O.* has been the manager of the large market division since June 2005 and was previously the chief executive officer of Banchile Factoring S.A. from 2002 to 2005. He joined Banco de A. Edwards in 1989. Mr. Ebensperger was manager of the medium size companies division and manager of the regional branches of Banco de A. Edwards from 1997 to 2001. Presently, Mr. Ebensperger is the Chairman of the board of directors of Artikos S.A. He is also currently member of the board of directors of Banchile Asesoría Financiera S.A. and Banchile Factoring S.A. Mr. Ebensperger holds a degree in business from the Universidad de Chile.

*Juan Cooper A.* has been the manager of the consumer division since 2003. He was the chief executive officer of Altavida Santander Compañía de Seguros de Vida S.A. from 2001 to 2002 and the manager of the Santiago Express division of Banco Santiago from 1993 to 2000. He is also currently a member of the board of directors of Socofin S.A., and a member of the executive committee of Banchile Corredores Seguros Limitada. Mr. Cooper has a degree in business from the Universidad de Chile and a master's degree in business administration from the Pontificia Universidad Católica de Chile.

*Felipe Echaiz B.* has been the Global Compliance Division Manager since January 2008. He joined us this year as a result of the merger with Citibank Chile. Mr. Echaiz worked at Citibank for six years and was Citigroup's Country Compliance Officer from 2006 to 2007. In 2003, he was the deputy to the Anti-Money Laundering and Organized Crime Unit Director (Public Prosecutor's Office). Mr. Echaiz holds a degree in Law from the Pontificia Universidad Católica de Chile, and a master's degree in Finance and Economics from the Universidad de Chile.

*Alfred Exss L.* has been the head of the Products and Services Division (which includes Cash Management, Trade, Factoring, Leasing and Custody) since January 2008. Mr. Exss worked for Citibank Chile for 23 years in several positions, including Managing Director reporting to the CEO, Senior Credit Officer, Global Transaction Services Head and Corporate Bank Head. Mr. Exss holds a business degree from the Universidad Católica de Chile.

*Andres Bucher C.* has over 19 years of experience in investment banking. He was a Managing Director for Citibank Chile and now is the Co-Head of Investment Banking & Capital Markets for Banco de Chile. Mr. Bucher has led and participated directly in a significant number of M&A and capital markets transactions with a number of local and international clients in a wide range of industries. Mr. Bucher holds an Industrial Engineering degree from the Universidad Católica de Chile and a Master in Business Administration degree from the Wharton School, University of Pennsylvania.

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*Juan Carlos Cavallini* has over 20 years of experience in investment banking, capital markets and corporate banking. He was a Managing Director and Head of the Corporate Bank for Citibank Chile and currently is the Co-Head of Investment Banking & Capital Markets for Banco de Chile. Mr. Cavallini joined Citibank in 1986. From 1993 to 1996, he was based in New York in Citi's International Corporate Finance Division. Mr. Cavallini also was Co-Head of the Investment Bank and Capital Markets Division in Citi and was appointed a Senior Securities Officer in 2003 and a Senior Credit Officer in 2005. Mr. Cavallini holds an Industrial Engineering degree from the Universidad Católica de Chile.

*Mario Farren R.* has been the manager of the Treasury Division since January 2008. Prior to serving in this position, Mr. Farren was the Country Treasurer, Sales and Trading Head for Citibank Chile. In addition, Mr. Farren has held other positions within Citigroup, Inc. such as Country Treasurer Head in Colombia and Uruguay, Commerce Head, Lat Am Sales and Trading in New York, and Sales and Derivatives Head in Chile. He joined Citibank Chile in 1991. Mr. Farren is a member of the board of directors of Banchile Securitizadora, S.A. He holds a business degree from Universidad de Chile and a Master of Business Administration degree from the University of Chicago.

*Julio Ramírez G.* was appointed head of our Individual Credit Risk Division in January 2008. Mr. Ramírez joined us in 2002 as a result of the merger with Banco de A. Edwards, where he had been since 1990. From 2002 to 2007, Mr. Ramírez was manager of the Individual Credit Risk Area, which was part of the Credit Risk Division. Mr. Ramírez is a member of the board of directors of Socofin S.A. He holds a degree in Business from the Universidad de Chile.

*Oscar Mehech C.* was appointed head of our Regulatory Policies Division in January 2008, after being our Global Compliance head until December 2007. Mr. Mehech joined us in 2002 as a result of the merger with Banco de A. Edwards and since 2004 held the position of Deputy General Counsel of the Bank and secretary of the board of Banchile Asesoría Financiera S.A. Previously, he was the deputy General Counsel of Banco de A. Edwards, which he joined in 1991. Mr. Mehech holds a law degree from Universidad de Chile.

**COMPENSATION**

The table below presents the amount of compensation, as established by our shareholders, to the members of our board of directors for the year ended December 31, 2007. These amounts include remuneration for services, fees for attendance at board meetings, committee meetings and subsidiary board meetings and consulting and travel expenses.

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| Name of Director                   | Remuneration | Fees for attendance at committee meetings and subsidiary board meetings |  |         | Consulting | Total |
|------------------------------------|--------------|---|--|---------|------------|-------|
|                                    |              | Fees for attendance at board meetings                                   | (in millions of constant Ch\$ as of December 31, 2007) |         |            |       |
| Pablo Granifo Lavín                | Ch\$ 294     | Ch\$ 33   | Ch\$ 197   | Ch\$    | Ch\$ 524   |       |
| Andrónico Luksic Craig             | 136          | 12  |  |         | 148        |       |
| Jorge Awad Mehech                  | 45           | 22  | 73   |         | 140        |       |
| Hernán Büchi Buc                   | 34           | 15  | 31   |         | 80         |       |
| Jacob Ergas Ergas                  | 45           | 16  | 60   |         | 121        |       |
| Jaime Estévez Valencia             | 34           | 17  | 49   |         | 100        |       |
| Guillermo Luksic Craig             | 45           | 7   |  |         | 52         |       |
| Rodrigo Manubens Moltedo           | 45           | 22  | 103  | 45      | 215        |       |
| Gonzalo Menéndez Duque             | 45           | 23  | 123  |         | 191        |       |
| Francisco Pérez Mackenna           | 45           | 21  | 61   |         | 127        |       |
| Fernando Cañas Berkowitz           | 33           | 9   | 95   |         | 137        |       |
| Thomas Fürst Freiwirth             | 45           | 21  | 63   |         | 129        |       |
| Jorge Ergas Heymann                | 45           | 16  | 39   |         | 100        |       |
| Jorge Díaz Vial                    | 66           | 10  | 22   | 1       | 99         |       |
| Máximo Pacheco Matte               | 11           | 3   |  |         | 14         |       |
| Segismundo Schulín-Zeuthen Serrano | 11           | 5   | 11   | 12      | 39         |       |
| Other subsidiary directors         |              |   | 84   |         | 84         |       |
| Total                              | Ch\$ 979     | Ch\$ 252  | Ch\$ 1,011   | Ch\$ 58 | Ch\$ 2,300 |       |

Consistent with Chilean law, we do not disclose to our shareholders, or otherwise make public, information regarding the compensation of our senior management. For the year ended December 31, 2007, the aggregate amount of compensation paid to our senior management, including the senior management of our subsidiaries, was Ch\$4.826 million. Pursuant to the Chilean Corporations Law, our directors/audit committee must approve compensation plans, but we are not required to have a compensation committee. For the year ended December 31, 2007, no amounts were set aside or accrued by us to provide pension, retirement or similar benefits for our directors and officers.

**Indebtedness of Directors and Executive Officers**

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

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

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Chilean law contains additional provisions restricting transactions with affiliates not involving directors or executive officers. The Chilean Corporations Law requires that our transactions with related parties be on market terms. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is to be entered into. Directors of companies that violate this provision are liable for losses resulting from such violation. As disclosed in Note 16 to our audited consolidated financial statements, we incurred an aggregate of Ch\$17,991 million in expenses and Ch\$125 million in income from transactions other than loans with related parties in 2007.

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

were made in the ordinary course of business;

were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons; and

did not involve more than the normal risk of collectibility or present other unfavorable features.

We held an aggregate of Ch\$213,307 million in loans to, including Ch\$56,712 million in collateral pledged by, related parties as of December 31, 2007. See Note 16 to our audited consolidated financial statements for details concerning these transactions.

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**BOARD PRACTICES**

**Governance Practices**

The board of directors delegates certain functions and activities to our committees to research, evaluate and report to the board of directors regarding specific matters which may affect our businesses.

***The Directors/Audit Committee***

Prior to March 24, 2005, the directors committee and audit committee were separate committees performing independent functions for the board of directors. On March 24, 2005, the board of directors resolved to merge the directors committee with the audit committee forming the directors/audit committee. The committee's objectives are to seek the efficiency, maintenance, application and functioning of our internal control systems and compliance with the applicable rules and procedures governing our business; to identify our business risks; to supervise the functions of the risk control division, ensuring its independence from management; to supervise the functions of the global compliance division; to serve as link and coordinator of tasks between the internal audit work and the independent auditors and to act as a link with our board of directors.

Our directors/audit committee is composed of three members appointed by the board of directors. The directors/audit committee is currently composed of the following individuals:

Jorge Awad M. (chair and financial expert);

Jaime Estevez V.; and

Fernando Quiroz R.

Mr. Awad was appointed as a member of the directors/audit committee by the board of directors at the board meeting held on March 24, 2005. Mr. Estevez was appointed to the directors/audit committee at the meeting of the board of directors held on April 12, 2007. Mr. Quiroz was appointed to the directors/audit committee at the meeting of the board of directors held on January 24, 2008.

Messrs. Awad and Estevez satisfy the independence requirements of both Chilean law and Rule 10A-3 under the Exchange Act and are full voting members of our directors/audit committee.

Mr. Fernando Quiroz R. is exempt from the independence requirements of Rule 10A-3 pursuant to the exemption under Rule 10A-3(b)(1)(iv)(D). Pursuant to that exemption, Mr. Quiroz is a non-voting member of our directors/audit committee with respect to all matters required to be addressed by our audit committee under U.S. federal securities laws.

The directors/audit committee usually meets monthly and at least eight times a year. The budget of the directors/audit committee is approved annually at the ordinary shareholders' meeting. The directors/audit committee satisfies the applicable requirements of the Chilean Superintendency of Banks and operates pursuant to a charter document. The Chilean Superintendency of Banks recommends that at least one of the members of the committee be experienced with respect to the accounting procedures and financial aspects of banking operations. The committee submits a report regarding its activities to our board of directors after each directors/audit committee meeting and presents an annual report at our annual shareholder's meeting. As established in the committee's bylaws, the chief executive officer, the general legal counsel and the manager of the risk control division also attend meetings. A partner of the independent auditor's firm and other persons that the committee may invite may also attend meetings.

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The committee may appoint independent personnel to carry out specific duties. The duties of the directors/audit committee include:

reviewing all related party transactions and informing the board of directors of such transactions;

reviewing annual and interim financial statements and informing the board of directors of the results of such reviews;

reviewing the audit reports prepared by our internal comptroller and supervising our controlling divisions;

reviewing the reports, procedures and work of our external auditors and interacting with rating agencies;

selecting external auditors and rating agencies to be proposed to the board of directors;

coordinating with and delegating or recommending tasks to our internal and external auditors;

discussing the effectiveness and reliability of internal control procedures;

informing the board of directors of any change in accounting principles and its effects;

discussing the compensation structure and self-evaluation process for senior management;

reviewing and discussing money-laundering procedures, prevention, policies and compliance;

reviewing complaints presented by our clients to the Chilean Superintendency of Banks;

reviewing and deliberating on issues related to conflicts of interests;

investigating suspected fraudulent activities;

reviewing the inspection reports, instructions and presentations from the Chilean Superintendency of Banks;

reviewing the performance of information systems, their efficiency, reliability and utility in decision making;

intervening in any other situation where intervention is warranted in the committee's discretion;

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to be informed about the compliance of institutional policies related to the due fulfillment with laws, regulations and internal regulations that must fulfill the company; and

analyzing and reporting on activities relating to foreign branches.

### ***Portfolio Committee***

The main function of the portfolio committee is to inform the board of directors of changes in the composition and risk of our loan portfolio from a global perspective and from a sector point of view, and also segmented by lines of business. The committee closely reviews the performance of our principal debtors, overdue loan ratios, past-due loan indicators, write-offs and allowances for loan losses.

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The loan portfolio committee prepares proposals for discussion with, and approval by, the board of directors with respect to credit policies, portfolio evaluation methods and the calculation of allowances for expected loan losses. The committee also performs analyses of the adequacy of allowances, authorizes extraordinary loan write-offs once recovery attempts have been exhausted and controls the disposal of assets acquired in lieu of payment.

This committee meets on a monthly basis and is comprised of two directors, in addition to our chief executive officer, the manager of our company and market risk division and the manager of our individual risk division.

### ***Credit Committee of Directors***

The credit committee of directors provides the highest level of approval of credit proposals presented by our credit risk segment and commercial officers. The committee evaluates proposals with respect to loans that would expose us to credit risks in excess of UF 250,000. It also evaluates proposals based upon certain qualitative aspects, irrespective of approval amounts, such as the approval of customers whose eventual collections might adversely affect our corporate image or the approval of transactions with related parties. The committee meets on a weekly basis and is comprised of the entire board of directors.

### ***Finance, International and Financial Risk Committee***

The finance, international and financial risk committee provides a forum for members to discuss and analyze the implementation of financial management policies. The committee meets monthly and is comprised of five directors, our chief executive officer, the corporate and investment banking division manager, the treasury manager, the corporate and market risk manager and the chief financial officer. Committee members conduct analyses and make presentations to the committee regarding certain matters, including:

analyzing the economic and financial environment, including changes in international exposure;

defining market risk policies, procedures and limits;

control of market risk limits, liquidity and other regulatory financial limits. See Item 11. Quantitative and Qualitative Disclosures About Market Risk and Item 4. Information on the Company Regulation and Supervision;

new operations and financial businesses;

monitoring positions and related market risks;

control of counterparty exposure in financial derivatives;

analysis of our current and forecasted financial structure;

allocating our capital to different lines of business;

defining policies setting the cost of funds; and

financial management of foreign branches.

***Financial Control and Operating Agreements Committee***

The objective of the financial control committee is to review the financial impact of the connectivity agreement between Banco de Chile and Citigroup and any related financial matters arising from that arrangement. The committee meets monthly and is comprised of four directors, our chief executive officer, the strategic development division head and the chief financial officer.

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### ***Asset Laundering Prevention Committee***

The Asset Laundering and Financing of Terrorism Prevention Committee was set up in April 2006 with the purpose of defining the policies and procedures that would comprise the Asset Laundering and Financing of Terrorism Prevention System, as well as evaluating compliance and deciding on all matters related to these subjects.

This Committee includes the Chairman of the Board, the Chief Executive Officer, the Legal Counsel, the Operations and Technology Division manager and one director. The Risk Control Division manager and the Global Compliance Division manager also serve as members of the Committee with full voting rights.

The Committee meets monthly and is charged with pursuing the following functions:

to approve the policies and procedures concerning knowledge of the Corporation's customers and their activities, and the acceptance and monitoring of their accounts, products and operations;

to approve policies and procedures concerning unusual transaction detection systems, formal channels of information to senior levels and monitoring, analysis and reporting mechanisms;

to approve policies and procedures concerning methods to improve vigilance and improve relations with correspondent banks;

to approve policies and procedures concerning staff selection, training programs and code of conduct;

to revise and analyze the results of the revisions made to verify compliance with current policies and procedures.

to consider the transactions analyzed and decisions made by the Transactions Analysis Committee;

to consider and approve specific training plans proposed by the Global Compliance Division; and

to inform the Board of regulatory changes related to the prevention of asset laundering and financing of terrorism.

### ***Disclosure Committee***

In May 2003, we established the Disclosure Committee in order to formalize the processes that are necessary to ensure that the information we provide to the market is detailed, accurate and complete. The members of the Disclosure Committee include the Chief Financial Officer, the Manager of the Risk Control Division, the Investor Relations Manager, the Advisory and US GAAP Reporting Head, the Deputy General Counsel, the Manager of the Research Area and, when necessary, persons from our other divisions. The members of the Disclosure Committee are involved in the preparation and revision of all financial information published by the Bank.

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### ***Ethics Committee***

The Ethics Committee was formed in 2005 to define and promote standards of professional and personal excellence among our staff consistent with the Bank's philosophy and values in order to enhance the bonds of trust between the our staff and its customers.

To meet these objectives and promote a culture of ethical behavior, the Committee arranges activities regarding regulation, training and communications. The Committee sets policies on ethics and ensures their compliance, develops training plans related to ethics in our business, and reinforces positive behavior among our staff. The Committee also acts and the forum for resolving the various situations where there is a conflict between certain types of conduct and the values promoted by the Bank. This Committee is chaired by the Manager of the Human Resources Division and includes the General Counsel, the Manager of the Individual Banking and Companies Division, the Manager of the Operations and Technology Division, the Manager of the Risk Control Division and the Manager of the Wholesale, Large Corporations and Real Estate Division.

### ***Global Transaction Services Committee***

The Global Transaction Services Committee was set up with the purpose of monitoring the performance of the Products and Services Division from a global perspective, as well as local cash management, international trade and custody products. This committee meets on a monthly basis and its membership includes the Chairman of the Board, the Chief Executive Officer, the manager of Wholesale Large Corporations and Real Estate Division, the Corporate Banking Division manager, the Products and Services Manager, the manager of the Strategic Development division and two directors.

### ***International Personal Banking and Private Banking Committee***

The main goal of the International Personal Banking and Private Banking Committee is to oversee the implementation of the Global Connectivity and Cooperation Agreements in connection with financial agency services directed to our high income costumers who are natural persons. This committee meets on a monthly basis and is composed of the Chairman of the Board, the Chief Executive Officer, the manager of the Strategic Development Division, the Individual Banking and Companies Division manager and two directors.

### ***Leasing Committee***

The Leasing Committee is tasked with the assessment and control of our leasing products. The Leasing Committee focuses on many sources of information, including statements of income and the portfolio mark. This committee meets on a monthly basis and is composed of the Chairman of the Board, the Chief Executive Officer, the Manager of the Corporate Banking Division and the Manager of the Wholesale, Large Corporations and Real Estate Division.

### ***Investment Banking Committee***

The objective of the Investment Banking Committee is to review the businesses that are being performed in that sector and to monitor the pipeline of potential businesses. This committee meets on a monthly basis and is composed of the Chairman of the Board, the Chief Executive Officer, the Manager of the Corporate and Investment Banking Division, the co-managers of the Investment Banking Division, two directors and the Chief of the Strategic Development department.

### ***Insurance Brokers Committee***

The Insurance Brokers Committee was set up for the purpose of reporting the financial outcomes of the Bank with respect to sales indicators of insurance traded by the Bank. This committee also seeks to implement programs designed to fortify our insurance banking business (including with respect to insurance related to credit transactions). The Insurance Brokers Committee meets on a monthly basis and is composed of the Chairman of the Board, the Chief Executive Officer, the Manager of the Individual Banking and Companies Division, the Manager of the Consumer Division and one director.

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**NYSE Corporate Governance Comparison**

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

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

**NYSE Standards**

***Director Independence.*** *Majority of board of directors must be independent. Controlled companies, which would include our company if it were a U.S. issuer, are exempt from this requirement. §303A.01*

***Executive Sessions.*** *Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03*

***Audit committee.*** *Audit committee satisfying the independence and other requirements of Rule 10A-3*

**Our Corporate Governance Practice**

Pursuant to the General Banking Law; we are not required to make a determination as to the independence of our directors.

Pursuant to the Chilean Corporations Law, we must determine whether the members of our directors/audit committee (all of whom are members of our board of directors) are independent.

The definition of independence applicable to us pursuant to the Chilean Corporations Law differs in certain respects from the definition applicable to U.S. issuers under the NYSE rules.

Under the Chilean Corporations Law, a director is deemed to be an independent member of the directors/audit committee if such member would have been elected as a director at the shareholders meeting after excluding the votes of any controller or party related to it. Under the regulations of the Chilean Superintendency of Banks, members of the audit committee must satisfy international independence criteria.

There is no similar requirement under our bylaws or under applicable Chilean law.

We are in compliance with Rule 10A-3. The members of our audit committee are not required to satisfy

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**NYSE Standards**

*under the Exchange Act, and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07*

***Nominating/corporate governance committee.*** *Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. Controlled companies, which would include our company if it were a U.S. issuer, are exempt from these requirements. §303A.04*

***Compensation committee.*** *Compensation committee of independent directors is required, which must approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. Controlled companies, which would include our company if it were a U.S. issuer, are exempt from this requirement. §303A.05*

***Equity compensation plans.*** *Equity compensation plans require shareholder approval, subject to limited exemptions.*

***Code of Ethics.*** *Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. §303A.10*

**Our Corporate Governance Practice**

the NYSE independence and other audit committee standards that are not prescribed by Rule 10A-3.

For a description of the duties of our audit committee under applicable Chilean law, see Directors/Audit Committee Duties.

We are not required to have, and do not have, a nominating/corporate governance committee.

We are not required to have a compensation committee. Pursuant to the Chilean Corporations Law, our directors/audit committee must approve compensation plans.

Equity compensation plans require shareholder approval, subject to limited exemptions.

We have adopted a code of ethics applicable to all of our directors and executive officers, a revised version of which is filed as an exhibit to this Form 20-F. We are required by Item 16B of Form 20-F to disclose any waivers granted to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions. Our code of ethics sets forth the principles and values that govern personnel conduct as well as other issues such as; conflicts of interests, usage of the privileged information, internal controls for fraud prevention and labor responsibility.

**Table of Contents****EMPLOYEES**

The following table shows the breakdown of our full-time, permanent employees at the dates indicated:

|  | As of December 31, |        |        |
|--|--------------------|--------|--------|
|  | 2005               | 2006   | 2007   |
| Banco de Chile                               | 6,745              | 7,232  | 8,641  |
| Overseas branches and representative offices | 84                 | 125    | 95     |
| Subsidiaries                                 | 3,328              | 3,862  | 3,231  |
| Total  | 10,157             | 11,219 | 11,967 |

As of December 31, 2007, we had 11,967 employees (on a consolidated basis) of which approximately 4,042, or 33.8 %, were unionized. All management positions are held by non-unionized employees. As of May 17, 2008, we were a party to five collective bargaining agreements covering our unionized employees. Four of the collective bargaining agreements were signed in May 2008 and will expire in April 2012. The other collective bargaining agreement was assumed as part of the merger with Citibank Chile and it has been in effect since September 2007 and is set to expire in September 2009. We have not experienced a strike in the last 10 years and consider relations with our employees to be satisfactory. Two of our subsidiaries, Socofin S.A. and Promarket, S.A., are in the process of negotiating collective bargaining agreements.

We have a comprehensive personnel training and development program that includes internal courses on operational, technical and commercial matters as well as participation in external seminars. In 2007, the total cost of training programs was approximately 0.7 % of total personnel salaries and expense. We do not maintain any pension or retirement programs for the vast majority of our employees. We do, however, pay certain long-serving key employees a severance payment upon retirement. Although we have, in the past, provided productivity bonuses to individual employees on a discretionary basis, we do not maintain a formal profit-sharing plan.

**SHARE OWNERSHIP**

Mr. Andronico Luksic and Mr. Guillermo Luksic, members of our board of directors since March 2002 and March 2001, respectively, together with members of their family, control Quiñenco S.A. As of June 18, 2008, Quiñenco S.A. owns 32.11% of our outstanding shares (directly and indirectly through LQ Inversiones Financieras S.A.). Additionally, Quiñenco S.A. holds 61.68% of the voting rights in Banco de Chile (directly and indirectly through shares of SM-Chile S.A. that are owned by LQ Inversiones Financieras S.A. and Inversiones LQ-SM S.A.).

In connection with the framework agreement executed between Citigroup, Inc. and Quiñenco S.A. in July 2007 and following the merger of Citibank Chile into Banco de Chile, Citigroup became a shareholder of LQ Inversiones Financieras S.A. ( LQIF ), the parent corporation of SM-Chile S.A. As of May 23, 2008, Citigroup is the owner of 32.96% of LQIF and Quiñenco directly and indirectly owns 66.98% of LQIF. As part of this agreement, Citigroup may increase its ownership participation in LQIF to 50% within 28 months of January 1, 2008. Regardless of any increase in participation by Citi, however, the agreement provides that Quiñenco will remain in control of LQIF and the corporations that are directly or indirectly controlled by LQIF. Accordingly, Quiñenco will maintain the power to elect the majority of the directors of LQIF, SM-Chile and Banco de Chile.

Mr. Jacob Ergas, a member of our board of directors since January 1, 2002, controls Ever I Bae S.A., Ever Chile S.A. and Inversiones Aspen Limitada. As of June 18, 2008, these holding companies own 2.14%, 2.14% and 1.48% of our outstanding shares, respectively. Mr. Ergas holds 5.75% of the voting rights in Banco de Chile through these holding companies.

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None of our directors or senior management (other than Mr. Andronico Luksic, Mr. Guillermo Luksic and Mr. Jacob Ergas) owns 1% or more of our outstanding common stock. Further, none of our directors (including Mr. Andronico Luksic, Mr. Guillermo Luksic and Mr. Jacob Ergas) or senior management has different or preferential voting rights with respect to the shares they own.

We do not have any arrangements for involving employees in our capital, including any arrangements that involve the issue or grant of options of our shares or securities.

**Table of Contents****Item 7. Major Shareholders and Related Party Transactions****MAJOR SHAREHOLDERS**

The following table sets forth certain information regarding the ownership of outstanding shares as of June 18, 2008 for the following:

each person or entity who is known by us to own beneficially more than 5% of our outstanding share capital or voting power; and

our directors and members of our executive management group, as a group.

| <b>Name</b>  | <b>Amount Owned</b> | <b>Percentage<sup>(1)</sup></b> |
|--|---------------------|---------------------------------|
| LQ Inversiones Financieras S.A. and SM Chile S.A. <sup>(2)</sup> | 66,701,015,515      | 82.36%                          |
| Jacob Ergas <sup>(3)</sup>                                       | 4,651,734,913       | 5.75%                           |
| Directors and executive officers as a group (28 persons)         | 16,591,448          | 0.02%                           |

- (1) Percentages are based on 80,879,895,984 common shares outstanding as of June 18, 2008. This number includes 72,436,034,844 ordinary shares and 8,443,861,140 ordinary shares of the series Banco de Chile-S, which resulted from the merger of Citibank Chile with and into the Bank
- (2) LQ Inversiones Financieras S.A. ( LQIF ) holds these shares directly and indirectly through SM-Chile S.A. In connection with the framework agreement executed between Citigroup, Inc. and Quiñenco S.A. in July 2007 and following the merger of Citibank Chile into Banco de Chile, Citigroup became a shareholder of LQIF. As of May 23, 2008, Citigroup is the owner of 32.96% of LQIF and Quiñenco directly and indirectly owns 66.98% of LQIF. Regardless of any increase in participation by Citi, however, the agreement provides that Quiñenco will remain in control of LQIF and the corporations that are directly or indirectly controlled by LQIF. Accordingly, Quiñenco will maintain the power to elect the majority of the directors of LQIF, SM-Chile and Banco de Chile. As of December 31, 2007, members of the Luksic family or their affiliates beneficially owned 82.9% of the common shares of Quiñenco S.A. Mr. Andronico Luksic and Mr. Guillermo Luksic are members of our board of directors.
- (3) Mr. Jacob Ergas, a member of our board of directors, holds his shares through Ever I Bae S.A., Ever Chile S.A. and Inversiones Aspen Ltda., which are holding companies under his control.

**RELATED PARTY TRANSACTIONS**

In the ordinary course of our business, we engage in a variety of transactions with certain of our affiliates and related parties. Financial information concerning these transactions is set forth in Note 16 to our audited consolidated financial statements. The Chilean Corporations Law requires that our transactions with related parties be on market terms or on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market on the date the transaction is entered into. Directors of companies that violate this provision are liable for losses resulting from such violations.

In addition, the Chilean Corporations Law provides that any transaction in which a director has a personal interest or is acting on behalf of a third party must be previously approved by a majority of the disinterested directors on the company's board of directors. The terms of such transaction must be similar to those prevailing in the market. If the proposed transaction involves amounts considered to be material, the disinterested directors must previously determine that the terms and conditions of the transaction are consistent with those prevailing in the market. If it is not possible for the board of directors to reach such a judgment on its own, the board may appoint two independent evaluators. The evaluators' final conclusions must be made available to shareholders and directors for a period of 20 business days, during which shareholders representing 5% or more of the issued voting shares may request the board of directors to summon a shareholders' meeting to resolve the matter, with the agreement of two-thirds of the issued voting shares required for approval. For purposes of this requirement, the Chilean Corporations Law considers that the amount of a proposed transaction is material if (1) it exceeds 1% of the company's paid-in capital and reserves, (provided that it also exceeds UF2,000) or (2) it exceeds UF20,000.



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All resolutions approving such transactions must be reported to the company's shareholders at the next annual shareholders' meeting. Violations of this provision may result in administrative or criminal sanctions and civil liability to shareholders or third parties who suffer losses as a result of such violation. We believe that we have complied with the applicable requirements of the Chilean Corporations Law in all transactions with related parties and affirm that we will continue to comply with such requirements. See Note 16 to our audited consolidated financial statements for a more detailed accounting of transactions with related parties.

On December 28, 2005 we entered into an agreement with Banchile Seguros de Vida S.A., an affiliated insurance brokerage company, setting forth the specific terms of the life insurance policies associated with customer loans contracted by us for its borrower portfolio on behalf of the borrowers. The conditions of this agreement are an integral part of all the life insurance policies that we offer our borrowers. On December 31, 2006 the agreement was automatically renewed until December 31, 2007. The agreement can be automatically renewed for an additional one-year period through December 31, 2008. All the conditions contained in the agreement were previously reviewed and approved by our board of directors.

On July 19, 2007, Quiñenco S.A., Citigroup Inc. and Citibank Overseas Investment Corporation entered into a Master Joint Venture Agreement (the Framework Agreement) that set forth the parameters of a partnership between Quiñenco and Citigroup, including the eventual merger of Citibank Chile into Banco de Chile. The Framework Agreement provided that Citigroup would initially acquire a 32.96% equity interest in LQIF, the controlling shareholder of Banco de Chile, and an option of increasing its stake in LQIF to 50% through the exercise of several options. Citigroup could also increase its stake in LQIF to up to 50% if Quiñenco exercised its put options under the Framework Agreement. The acquisition by Citigroup of its initial interest in LQIF occurred, with effect on January 1, 2008, under the terms of the Framework Agreement and a corresponding Merger Agreement between Banco de Chile and Citibank Chile. For purposes of the Merger Agreement, the operations and businesses of Citibank Chile that were effectively contributed to Banco de Chile were deemed to represent 10.497% of the post-merger entity and, together with other assets and businesses contributed by Citigroup to LQIF, were the basis for issuance by LQIF to Citigroup of the 32.96% equity interest in LQIF. As consideration for the merger and as a result of the Extraordinary Shareholders' Meeting held on December 27, 2007, we issued and conveyed to LQIF (and indirectly, the holders of Citibank Chile shares) 8,443,861,140 no-par value Banco de Chile S-Series shares.

Under the Framework Agreement, Quiñenco remains as the controlling shareholder of LQIF and therefore of Banco de Chile, while Citigroup is granted certain governance and other shareholder rights. With respect to the governance of Banco de Chile, Citigroup has the right to name two directors to the eleven-member board of directors of Banco de Chile, while Quiñenco would maintain the right to appoint a majority of our board of directors. Citigroup also has the power to appoint certain officers of Banco de Chile (including the Chief Financial Officer) and at least one representative on each of our directors' committees. Under this agreement, Citigroup was also granted certain veto rights over fundamental strategic decisions, such as the delisting of Banco de Chile's shares from the New York Stock Exchange or the Chilean stock exchanges, entry into new lines of business or large acquisitions, approval of related party transactions and changes to our bylaws or organizational documents. Furthermore, Citigroup agreed to purchase substantially all of the assets of the North American (i.e., Miami and New York) branches of Banco de Chile for US\$130 million. In the event that Citigroup were to beneficially own 50% of LQIF (either through the exercise of its options or if Quiñenco were to exercise its put option), Citigroup would become entitled to name up to five of our 11 directors (such number to be reduced by the number of directors appointed by minority shareholders, provided that Citigroup always shall have the right to appoint at least one director), including the Vice-Chairman of our board of directors. However, even in this circumstance, Quiñenco would still be entitled to appoint a majority of our board of directors. The Framework Agreement also set forth a series of ancillary agreements proposed to be entered into by the parties to the Framework Agreement and their Affiliates.

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On December 27, 2007, Quiñenco S.A., Citigroup Chile S.A. and the minority shareholders of LQIF entered into a Shareholders Agreement that formalized the rights of Citigroup with respect to the governance of Banco de Chile as set forth in the Framework Agreement (and as discussed in the preceding paragraph). The Shareholders Agreement became effective on January 1, 2008.

On December 27, 2007, we entered into a Global Connectivity Agreement with Citigroup Inc. The purpose of this agreement is to enable Banco de Chile and its clients to become part of Citigroup's Global Network and to provide a framework for Banco de Chile and Citigroup to direct new business to the partnership in order to generate wealth creation for both institutions. The agreement sets forth the terms upon which Banco de Chile, Citigroup and its affiliates will develop a relationship with respect to cross-border business and services being applied to Corporate and Investment Banking, Private Banking International Personal Banking, Global Transactions Services, and other services and products. The parties agreed on the following principles with respect to implementing the terms of the agreement: (i) the promotion of global connectivity products among Chilean customers, (ii) the setup of a technology platform, (iii) the training of bank officers, and (iv) the construction of international support networks to carry out the transactions contemplated by the agreement.

On December 27, 2007, we also entered into a License Agreement with Citigroup Inc. in which Citigroup granted us a non-exclusive paid-up and royalty-free license to use certain Citi trademarks in Chilean territory. In addition, Citigroup granted us a license to use its domain name solely in connection with marketing and promoting authorized services in Chilean territory.

On December 27, 2008, we entered into a Cooperation Agreement with Citigroup Inc. The purpose of this agreement is to provide a framework for regulating the interplay of issues created by the above mentioned Citibank Chile merger transaction agreements and to facilitate a successful relationship between Banco de Chile and Citigroup. In particular, this agreement establishes a communication mechanism between the parties to enhance the exchange of ideas and information related to the integration of our business with that of Citigroup in Chile and it also provides for certain specific areas of collaboration going forward (such as with respect to our hedging and derivatives strategies).

On December 31, 2007, we entered into an Asset Purchase Agreement with Citibank, N.A. whereby we sold substantially all of the assets and operations in our banking businesses in Miami and New York to Citibank and Citibank agreed to offer employment to substantially all of the employees and to assume substantially all of the liabilities related to such assets and operations. In consideration for this sale, we were paid an aggregate purchase price of approximately U.S.\$130 million, in addition to the assumption of liabilities. Following the completion of the sale, the Miami and New York branches were placed in voluntary liquidation in January 2008. In March 2008, the banking licenses for both branches were surrendered to the appropriate banking regulator.

**Loans to Related Parties**

As authorized by the Chilean General Banking Law, and within the regulatory limits, we hold several outstanding loans owed by different corporations related to us. All such loans (i) were made in the ordinary course of business, (ii) were made on terms, including interest rates and collateral, substantially the same as those prevailing at the time for comparable transactions with other persons, and (iii) did not involve more than the normal risk of collectibility or present other unfavorable features. See Note 16 to our audited consolidated financial statements.

**Item 8. Financial Information**

**CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

**Audited Consolidated Financial Statements**

Please refer to Item 18. Financial Statements.

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### **Legal Proceedings**

We and our subsidiaries are subject to claims and are parties to legal proceedings in the normal course of business.

In September 2004, the Federal Agencies of the Office of the Comptroller of the Currency (OCC) and the Federal Reserve Bank of Atlanta reviewed our New York and Miami branches respectively, in order to evaluate, among other matters, their compliance with the requirements of the U.S. Bank Secrecy Act and other U.S. regulations pertaining to the prevention of money laundering. On February 1, 2005, as a consequence of these reviews, we agreed with the OCC to the issuance of a Consent Order and with the Federal Reserve Bank of Atlanta to the issuance of a Cease and Desist Order. To comply with these orders, an action plan was developed to include the development and maintenance of programs designed to strengthen compliance with aforementioned regulations.

On March 12, 2008, the OCC Consent Order was terminated as a consequence of the voluntary liquidation of our New York branch. Likewise, on June 12, 2008, the Cease and Desist Order issued by the Federal Reserve Bank in Atlanta was terminated as a consequence of the voluntary liquidation of our Miami branch.

### **Dividends**

We currently have two series of common shares, and the dividends on our shares are proposed by our board of directors and are approved by our shareholders at the annual ordinary shareholders meeting following the year with respect to which the dividends are proposed. Our annual ordinary shareholders meeting is held in the first three months of each year. Following shareholder approval, the dividends are declared and paid. Dividends are paid to shareholders of record on the fifth business day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of our ADSs are, to the extent practicable, the same. Under the Chilean Corporations Law and regulations issued thereunder, Chilean public corporations are generally required to distribute at least 30% of their earnings as dividends. Previously, a bank was permitted to distribute less than such minimum amount in any given year with approval of the holders of at least two-thirds of the bank's outstanding stock. In 2006, however, this possibility was eliminated by law. Under the General Banking Law, a Chilean bank may only pay a single dividend per year (i.e., interim dividends are not permitted).

Our dividend policy is affected to some extent by the rights of SAOS, our affiliate, pursuant to its assumption of the Central Bank indebtedness discussed in Item 5. Operating and Financial Review and Prospects Overview The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt.

We currently have two series of capital shares: Banco de Chile common shares and Banco de Chile S-series shares. We have a total of 80,879,895,984 outstanding shares with no par value, consisting of 72,436,034,844 ordinary shares and 8,443,861,140 ordinary shares of the series Banco de Chile-S, which resulted from the merger of Citibank Chile with and into the Bank. All of our shares are duly subscribed and paid.

In March 2007, we paid a nominal dividend of Ch\$1.9796 per share. At the Ordinary Shareholders Meeting on March 27, 2008, the shareholders agreed to the distribution and payment of dividend No. 196, in the amount of Ch\$3.359690 per Banco de Chile common share, with a charge to the 2007 income of Banco de Chile, and the distribution and payment of a dividend of Ch\$2.626161 per share of the Banco de Chile-S series.

During an extraordinary shareholders meeting on December 27, 2007, our shareholders approved, among other things, (i) the merger with Citibank Chile and (ii) a capital increase in the amount of Ch\$297,324,899,039, which was contributed and paid for as consideration for the acquisition of the all of the assets and liabilities of Citibank Chile. It was further agreed that the Bank would issue 8,443,861,140 registered, ordinary no-par Banco de Chile-S series shares, which were to be delivered to the shareholders of Citibank Chile, in the proportion of 8,443.86114 shares of Banco de Chile-S for each Citibank Chile share. For a more detailed description of this extraordinary shareholders meeting, see Item 10. Additional Information Memorandum and Articles of Association Shareholders Meetings and Voting Rights.

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Dividends payable to holders of our ADSs are net of conversion expenses of the depositary and are subject to Chilean withholding tax currently at the rate of 35%, subject to certain credits. Owners of our ADSs are not charged any fees with respect to cash or stock dividends.

Pursuant to current Chilean foreign exchange regulations, a shareholder who is not a resident of Chile need not register as a foreign investor in order to receive dividends, sale proceeds or other amounts with respect to its shares remitted outside Chile, but the investor must inform the Central Bank about any such transactions and must remit foreign currency through the Formal Exchange Market. Under the foreign investment contract, the depositary, on behalf of our ADS holders, will be granted access to the Formal Exchange Market to convert cash dividends from Chilean pesos to U.S. dollars and to pay such U.S. dollars to ADS holders outside Chile.

The following table sets forth the cash dividends declared per common share and per ADS during the periods indicated:

|  | 2003   | As of and for the Year Ended December 31, |        |       |       |       |
|--|--|---|--------|-------|-------|-------|
|  |  | 2004                                      | 2005   | 2006  | 2007  | 2007  |
|  | (in constant Ch\$ as of December 31, 2007, except for percentages) (in U.S.\$) |   |        |       |       |       |
| Dividend payout ratio <sup>(1)</sup>     | 100.0%   | 100.0%                                    | 100.0% | 82.9% | 82.7% | 82.7% |
| Dividend per common share <sup>(2)</sup> | 0.91   | 2.24                                      | 2.63   | 2.42  | 2.51  | 0.005 |

(1) Dividend payout ratio is calculated by dividing the amount of dividends paid by the earnings per share of the prior year.

(2) Dividends per share are calculated by dividing the amount of the dividend paid by the number of shares outstanding, excluding shares repurchased through the share repurchase program described elsewhere in this document.

Whether future dividends will be paid will depend upon our earnings, financial condition, capital requirements, governmental regulations and policies and other factors. Accordingly, there can be no assurance that dividends in future years will be paid at a rate similar to dividends paid in past years.

**SIGNIFICANT CHANGES**

No significant changes in our financial condition have occurred since the date of the most recent audited consolidated financial statements included in this annual report.

**Item 9. The Offer and Listing  
Nature of Trading Market**

Shares of our common stock are traded on the Chilean stock exchanges. They have been listed on the Santiago Stock Exchange since 1894, on the Electronic Stock Exchange since 1989 and on the Valparaiso Stock Exchange since 1894. The Santiago Stock Exchange is the principal trading market for our shares.

The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The Santiago Stock Exchange, which is Chile's principal exchange, had a market capitalization of approximately U.S.\$213.8 billion as of December 31, 2007 and an average monthly trading volume of approximately U.S.\$4,363 million for 2007. The Santiago Stock Exchange was established in 1893 and is a private company whose equity consists of 48 shares held by 45 shareholders. As of December 31, 2007, 286 series of shares were listed on the Santiago Stock Exchange.

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The Santiago Stock Exchange accounts for approximately 85.9% of all amounts traded in Chile. The ten largest companies in terms of market capitalization represented, as of December 31, 2007, approximately 47.6% of the Santiago Stock Exchange's aggregate market capitalization and during 2007 accounted for approximately 35.9% of its total volume. During 2007, 22.7% of the companies listed on the Santiago Stock Exchange had their shares traded on an average of 70% or more of the exchange's trading days. Approximately 13.7% of equity trading in Chile is conducted on the Chilean Electronic Stock Exchange, an electronic trading market that was created by banks and non-member brokerage houses. The remaining 0.4% of equity is traded on the Valparaiso Stock Exchange.

ADs, each representing 600 shares of common stock, without nominal (par) value, have been listed on the NYSE since January 2, 2002 under the symbol BCH. JPMorgan Chase Bank is our depository for purposes of issuing the ADRs evidencing our ADs. As of December 31, 2007, a maximum of 1,217,306 ADs were outstanding (equivalent to 730,383,783 shares of common stock or 1.01% of the total number of issued shares of common stock). Since certain of our ADs are held by brokers or other nominees, the number of direct record holders in the United States may not be fully indicative of the number of direct beneficial owners in the United States or of where the direct beneficial owners of such shares are resident.

We listed our shares on Latibex, and trading of our shares started on that exchange on October 8, 2002 under the code XBCH, grouped in trading units of 600 shares. In addition, since December 20, 2002, our shares are listed on the LSE.

The table below shows, for the periods indicated, the annual, quarterly and monthly high and low closing prices (in nominal Chilean pesos) of the traded shares of our securities on the Santiago Stock Exchange, the Electronic Stock Exchange, and the Valparaiso Stock Exchange:

|                                | Santiago Stock Exchange<br>Common Stock |           | Electronic Stock Exchange<br>Common Stock |           | Valparaiso Stock Exchange<br>Common Stock |           |
|--------------------------------|---|-----------|---|-----------|---|-----------|
|                                | High<br>(Ch\$ per share) <sup>(1)</sup> | Low       | High<br>(Ch\$ per share) <sup>(1)</sup>   | Low       | High<br>(Ch\$ per share) <sup>(1)</sup>   | Low       |
| <b>Annual Price History</b>    |   |           |   |           |   |           |
| 2003                           | Ch\$ 32.0                               | Ch\$ 19.2 | Ch\$ 32.0                                 | Ch\$ 19.2 | Ch\$ 32.0                                 | Ch\$ 20.3 |
| 2004                           | 36.8                                    | 26.5      | 36.8                                      | 26.0      | 36.8                                      | 26.5      |
| 2005                           | 37.7                                    | 32.0      | 38.0                                      | 32.0      | 38.8                                      | 30.0      |
| 2006                           | 45.9                                    | 32.0      | 46.0                                      | 31.4      | 46.0                                      | 31.7      |
| 2007                           | 48.2                                    | 38.1      | 49.0                                      | 37.5      | 48.0                                      | 37.5      |
| <b>Quarterly Price History</b> |   |           |   |           |   |           |
| 2006                           |   |           |   |           |   |           |
| 1 <sup>st</sup> Quarter        | 37.9                                    | 34.6      | 38.1                                      | 34.6      | 37.9                                      | 34.6      |
| 2 <sup>nd</sup> Quarter        | 35.0                                    | 32.0      | 35.7                                      | 31.4      | 35.0                                      | 31.7      |
| 3 <sup>rd</sup> Quarter        | 37.2                                    | 33.0      | 37.2                                      | 32.7      | 37.3                                      | 32.9      |
| 4 <sup>th</sup> Quarter        | 45.9                                    | 37.4      | 46.0                                      | 37.0      | 46.0                                      | 37.4      |
| 2007                           |   |           |   |           |   |           |
| 1 <sup>st</sup> Quarter        | 47.0                                    | 40.6      | 47.3                                      | 41.0      | 47.1                                      | 40.8      |
| 2 <sup>nd</sup> Quarter        | 48.2                                    | 40.5      | 48.0                                      | 40.0      | 47.0                                      | 40.9      |
| 3 <sup>rd</sup> Quarter        | 47.9                                    | 38.6      | 49.0                                      | 37.5      | 48.0                                      | 37.5      |
| 4 <sup>th</sup> Quarter        | 44.0                                    | 38.1      | 44.5                                      | 37.9      | 43.5                                      | 38.0      |
| 2008                           |   |           |   |           |   |           |
| 1 <sup>st</sup> Quarter        | 43.6                                    | 36.0      | 43.4                                      | 35.6      | 42.8                                      | 36.1      |
| <b>Monthly Price History</b>   |   |           |   |           |   |           |
| December 2007                  | 41.8                                    | 38.1      | 41.8                                      | 37.9      | 42.2                                      | 38.0      |
| January 2008                   | 41.3                                    | 36.0      | 41.0                                      | 35.6      | 40.5                                      | 36.1      |
| February 2008                  | 43.6                                    | 40.3      | 43.0                                      | 40.0      | 41.0                                      | 40.9      |
| March 2008                     | 43.3                                    | 37.9      | 43.4                                      | 37.5      | 42.8                                      | 38.2      |
| April 2008                     | 39.3                                    | 38.3      | 39.5                                      | 38.4      | 39.4                                      | 38.2      |
| May 2008                       | 39.9                                    | 38.2      | 41.0                                      | 38.2      | 39.6                                      | 38.1      |

Sources: Santiago Stock Exchange, Electronic Stock Exchange, Valparaiso Stock Exchange Official Quotation Bulletin.

- (1) Pesos per share reflect nominal price at trade date.

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The table below shows the annual, quarterly and monthly high and low closing prices in U.S. dollars and in Euros, respectively, as reported by the NYSE and Latibex:

|                                | NYSE<br>ADS <sup>(1)</sup> |                         | Latibex<br>Trading Units <sup>(2)</sup> |                                 |
|--------------------------------|----------------------------|-------------------------|---|---------------------------------|
|                                | High<br>(U.S.\$ per ADS)   | Low<br>(U.S.\$ per ADS) | High<br>(Euros per Trading Unit)        | Low<br>(Euros per Trading Unit) |
| <b>Annual Price History</b>    |                            |                         |   |                                 |
| 2007                           | U.S.\$ 53.51               | U.S.\$ 43.04            | 40.1                                    | 30.75                           |
| <b>Quarterly Price History</b> |                            |                         |   |                                 |
| 2007                           |                            |                         |   |                                 |
| 1 <sup>st</sup> Quarter        | 52.00                      | 45.45                   | 40.10                                   | 34.90                           |
| 2 <sup>nd</sup> Quarter        | 53.51                      | 46.70                   | 37.83                                   | 34.48                           |
| 3 <sup>rd</sup> Quarter        | 53.25                      | 43.04                   | 39.61                                   | 32.21                           |
| 4 <sup>th</sup> Quarter        | 53.00                      | 45.08                   | 37.17                                   | 30.75                           |
| 2008                           |                            |                         |   |                                 |
| 1 <sup>st</sup> Quarter        | 58.43                      | 45.90                   | 37.67                                   | 31.03                           |
| <b>Monthly Price History</b>   |                            |                         |   |                                 |
| December 2007                  | 50.98                      | 45.52                   | 34.33                                   | 31.96                           |
| January 2008                   | 53.55                      | 45.90                   | 35.58                                   | 31.03                           |
| February 2008                  | 57.75                      | 51.78                   | 37.26                                   | 35.00                           |
| March 2008                     | 58.43                      | 51.23                   | 37.67                                   | 32.12                           |
| April 2008                     | 55.01                      | 50.21                   | 34.43                                   | 31.84                           |
| May 2008                       | 52.44                      | 47.77                   | 33.44                                   | 30.68                           |

Sources: NYSE and Latibex Official Quotation Bulletin.

(1) One ADS represents 600 shares of common stock.

(2) One Trading Unit represents 600 shares of common stock.

**Item 10. Additional Information****MEMORANDUM AND ARTICLES OF ASSOCIATION**

Set forth below is a brief summary of the significant provisions of our bylaws, or *estatutos* and Chilean law. This description contains all material information concerning our shares, but does not purport to be complete and is qualified in its entirety by reference to our *estatutos* (a copy of which has been incorporated by reference into this annual report), the General Banking Law, the Chilean Corporations Law and the Securities Market Law.

We are an open stock (public) corporation. Open stock (public) corporations are those with 500 or more shareholders, or companies in which 100 or more shareholders own at least 10% of the subscribed capital (excluding those whose individual holdings exceed 10%), and all other companies that are registered in the Securities Registry of the Chilean Superintendency of Securities and Insurance. The Chilean Corporations Law sets forth the rules and requirements for establishing open stock corporations. Shareholder rights in a Chilean bank that is also an open stock corporation are governed by the bank's *estatutos*, which effectively serve as both the articles of incorporation and the bylaws of a company incorporated in the United States. Article 137 of the Chilean Corporations Law provides that all provisions of the Chilean Corporations Law take precedence over any contrary provision in a corporation's *estatutos*. Both the Chilean Corporations Law and our *estatutos* provide that legal actions by shareholders against us (or our officers or directors) to enforce their rights as shareholders or by one shareholder against another in their capacity as such are to be brought in Chile in arbitration proceedings.

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The Chilean securities markets are principally regulated by the Chilean Superintendency of Securities and Insurance under the Securities Market Law and the Chilean Corporations Law. In the case of banks, compliance with these laws is supervised by the Chilean Superintendency of Banks. These two laws provide for disclosure requirements, restrictions on insider trading and price manipulation and protection of minority investors. The Securities Market Law sets forth requirements relating to public offerings, stock exchanges and brokers, and outlines disclosure requirements for companies that issue publicly offered securities.

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### **Capitalization**

There are currently two outstanding series of our capital stock. We have a total of 80,879,895,984 outstanding shares with no par value, consisting of 72,436,034,844 ordinary shares and 8,443,861,140 ordinary shares of the series Banco de Chile-S, which resulted from the merger of Citibank Chile with and into the Bank. For the avoidance of doubt, please note that there is no preferred class of shares and each series of our ordinary shares confer the same rights to shareholders. All of the shares are duly subscribed and paid. There are no legal restrictions on the payment of dividends from our net income, except that we may only pay a single dividend per year (*i.e.*, interim dividends are not permitted). Chilean public corporations are generally required to distribute at least 30% of their earnings as dividends. Previously, a bank was permitted to distribute less than such minimum amount in any given year if the holders of at least two-thirds of the bank's outstanding stock so determined, but in 2006 that possibility was eliminated by law. All of our shares have full voting rights.

Under Chilean law, the shareholders of a company, acting at an extraordinary shareholders' meeting, have the power to authorize an increase in the company's capital. When an investor subscribes for issued shares, the shares are registered in such investor's name, even if not paid for, and the investor is treated as a shareholder for all purposes except with regard to receipt of dividends and the return of capital. The investor becomes eligible to receive dividends or the return of capital once it has paid for the shares; if it has paid for only a portion of such shares, it is entitled to reserve a corresponding pro-rata portion of the dividends declared with respect to such shares unless the company's bylaws provide otherwise. If an investor does not pay for shares for which it has subscribed on or prior to the date agreed upon for payment, the company is entitled under Chilean law to auction the shares on the stock exchange and collect the difference, if any, between the subscription price and the auction proceeds. However, until such shares are sold at auction, the subscriber continues to exercise all the rights of a shareholder (except the right to receive dividends or the return of capital). In the case of banks, authorized shares and issued shares that have not been paid for within the period fixed for their payment by the Chilean Superintendency of Banks are cancelled and are no longer available for issuance by the company.

The Chilean Corporations Law provides that the purchaser of shares of a company implicitly accepts its bylaws and any agreements adopted at shareholders' meetings.

### **Directors**

For a description of the provisions of our *estatutos* relating to our board of directors and our directors/audit committee, see Item 6. Directors, Senior Management and Employees.

### **Ownership Restrictions**

Under the Securities Market Law and the regulations of the Chilean Superintendency of Banks, shareholders of open stock corporations are required to report the following to the Chilean Superintendency of Securities and Insurance and the Chilean stock exchanges:

any direct or indirect acquisition or sale of shares that results in the holder's acquiring or disposing of, directly or indirectly, 10% or more of an open stock corporation's share capital; and

any direct or indirect acquisition or sale of shares or options to buy or sell shares, in any amount, if made by a holder of 10% or more of an open stock corporation's capital or if made by a director, liquidator, main officer, general manager or manager of such corporation.

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In addition, any person who acquires 10% or more of our shares must include in the report whether the purpose of the acquisition is to acquire control of us or if he or she is making a financial investment. A beneficial owner of ADSs representing 10% or more of our share capital will be subject to these reporting requirements under Chilean law.

According to the regulations of the Chilean Superintendency of Banks, Chilean banks that issue ADSs are required to inform the Chilean Superintendency of Banks if any person, directly or beneficially, acquires ADSs representing 5% or more of the total amount of shares of capital stock issued by such bank.

Under the Securities Market Law and the regulations of the Chilean Superintendency of Banks, persons or entities intending to acquire control, directly or indirectly, of an open stock corporation are also required to inform the public of such intention at least 10 business days in advance but, in any case, as soon as negotiations regarding the change of control begin (*i.e.*, when information and documents concerning the target are delivered to the potential acquirer) through a filing with the Chilean Superintendency of Securities and Insurance, the stock exchanges, companies controlled by and that control the target and through a notice published in two Chilean newspapers, which notice must disclose, among other information, the person or entity purchasing or selling, the price and the material conditions of any negotiations.

Prior to such publication, a written communication to such effect must be sent to the target corporation, to the controlling corporation, to the corporations controlled by the target corporation, to the Chilean Superintendency of Securities and Insurance and to the Chilean stock exchanges. Title XV of the Securities Market Law provides the definition of a controlling power, direct holding and related party.

The General Banking Law provides that, as a matter of public policy, no person or company may acquire, directly or indirectly, more than 10% of the shares of a bank without the prior authorization of the Chilean Superintendency of Banks, which may not be unreasonably withheld. The prohibition also applies to beneficial owners of ADSs. In the absence of such authorization, any person or group of persons acting in concert would not be permitted to exercise voting rights with respect to the shares or ADSs acquired. In determining whether to issue such an authorization, the Chilean Superintendency of Banks considers a number of factors enumerated in the General Banking Law, including the financial stability of the purchasing party.

The General Banking Law also requires the prior authorization of the Chilean Superintendency of Banks for the following transactions:

the merger of two or more banks;

the acquisition of all or a substantial portion of a bank's assets and liabilities by another bank;

the control by the same person or controlling group of two or more banks; or

a substantial increase in the share ownership by a controlling shareholder of a bank.

The above mentioned authorization is required when the acquiring bank or the resulting group of banks, after the transaction is consummated, would own a significant market share in loans, defined by the Chilean Superintendency of Banks to be more than 15.0% of all loans in the Chilean banking system. This authorization may be denied by the Chilean Superintendency of Banks only by means of a founded resolution and if the petitioner does not comply with certain requirements, such as financial stability and commercial soundness.

If a merger between two or more banks results in a market share greater than 15% but less than 20%, the authorization of the Chilean Superintendency of Banks is conditioned on the post-merger bank maintaining the percentage of paid-in capital and reserves to risk-weighted assets of not less than 10% for a period established by the Superintendency (but in no event less than one year).

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When any of the aforementioned transactions results in a market share of 20% or greater for the resulting bank, the authorization may be conditioned on one or more of the following:

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

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

that the margin for interbank loans be diminished to 20% of the resulting bank's paid-in capital and reserves.

The General Banking Law and the regulations issued by the Chilean Superintendency of Banks provide that individuals that are holders of shares and who beneficially own more than 1% of the shares may be considered related to the bank and imposes certain restrictions on the amounts and terms of loans to them made by the related bank. This rule also applies to beneficial owners of ADSs representing more than 1% of the shares.

### **Preemptive Rights and Increases of Share Capital**

The Chilean Corporations Law provides that whenever a Chilean company issues new shares for cash, it must offer its existing shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentages in the company. Pursuant to this requirement, we must offer preemptive rights in connection with any future issue of shares to the depositary as the registered owner of the shares underlying the ADSs. However, the depositary will not be able to make the preemptive rights available to U.S. holders of ADSs unless a registration statement under the Securities Act, is effective with respect to the underlying shares or an exemption from the registration requirements thereunder is available.

We intend to evaluate, at the time of any preemptive rights offering, the practicality under Chilean law and Central Bank regulations in effect at the time of making such rights available to our ADS holders, as well as the costs and potential liabilities associated with the registration of such rights and the related shares of common stock under the Securities Act, and the indirect benefits to us of thereby enabling the exercise by all or certain U.S. holders of ADSs of their preemptive rights and any other factors we consider appropriate at the time. There can be no assurance that any registration statement would be filed. If we do not file a registration statement and no exemption from the registration requirements under the Securities Act is available, the depositary will sell such holders' preemptive rights and distribute the proceeds if a premium can be recognized over the cost of such sale.

In the event that the depositary is not able, or determines that it is not feasible, to sell such rights at a premium over the cost of any such sale, all or certain U.S. holders of ADSs may receive no value for such rights. Non-U.S. holders of ADSs may be able to exercise their preemptive rights regardless of whether a registration statement is filed. The inability of all or certain U.S. holders of ADSs to exercise preemptive rights in respect of shares of common stock underlying such ADSs could result in such holders not maintaining their percentage ownership of the common stock following a preemptive rights offering unless the holder made additional market purchases of ADSs or shares of common stock.

Under Chilean law, the preemptive right to subscribe new shares for cash must be exercised or transferred by shareholders within 30 days following the grant of such rights. For an open stock corporation during such period, and for an additional 30-day period thereafter, such corporation is not permitted to offer any unsubscribed shares for sale to third parties on more favorable terms than those offered to its shareholders. However, at the end of such additional 30-day period, a Chilean open stock corporation is authorized to sell unsubscribed shares to third parties on any terms, provided that they are sold on a Chilean stock exchange.

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### **Shareholders Meetings and Voting Rights**

An ordinary annual meeting of shareholders is held within the first three months of each year, generally in March. The ordinary annual meeting of shareholders is the corporate body that approves the annual financial statements, all dividends in accordance with the dividend policy determined by our board of directors and any other matter that does not require an extraordinary shareholders meeting and elects our board of directors. Extraordinary meetings may be called by our board of directors when deemed appropriate, and ordinary or extraordinary meetings must be called by our board of directors when requested by shareholders representing at least 10% of the issued voting shares or by the Chilean Superintendency of Banks.

Notice to convene the ordinary annual meeting or an extraordinary meeting is given by means of three notices that must be published in a newspaper of our corporate domicile (currently Santiago, Chile) or in the *Official Gazette* in a prescribed manner, and the first notice must be published not less than 15 calendar days nor more than 20 calendar days in advance of the scheduled meeting. Notice must also be given to the Chilean Superintendency of Banks and the Santiago, Valparaiso and Electronic Stock Exchanges. Currently, we publish our official notices in the *Diario El Mercurio*.

The notice of a shareholders meeting must be mailed not fewer than 15 calendar days prior to the date of such meeting and, in the case of an ordinary annual shareholders meeting, shareholders holding a prescribed minimum investment must be sent an annual report of our activities which includes audited consolidated financial statements. Shareholders who do not fall into this category but who request it must also be sent a copy of our annual report. In addition to these requirements, we regularly provide, and management currently intends to continue to provide, together with the notice of shareholders meeting, a proposal for the final annual dividend.

The quorum for a shareholders meeting is established by the presence, in person or by proxy, of shareholders representing at least an absolute majority of the issued shares; if a quorum is not present at the first meeting on first call, the meeting can be reconvened (in accordance with the procedures described in the previous paragraph) and, upon the meeting being reconvened, shareholders present at the reconvened meeting are deemed to constitute a quorum regardless of the percentage of the shares represented.

The shareholders meetings pass resolutions by the affirmative vote of an absolute majority of those voting shares present or represented at the meeting. Approval by a two-thirds majority of the issued shares, however, is required at any shareholders meeting to approve any of the following actions:

a change in corporate form, merger or spin-off;

an amendment to our term of existence or early dissolution;

a change in corporate domicile;

a decrease of corporate capital;

the approval of capital contributions in kind and a valuation of the assets contributed;

a modification of the powers of shareholders or limitations on the powers of our board of directors;

a reduction in the number of members of our board of directors;

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the transfer of 50% or more of the corporate assets or the formation or amendment of any business plan that contemplates the transfer of 50% or more of our corporate assets;

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any non-cash distribution in respect of the shares;

the granting of guarantees to secure third-party obligations in excess of 50% of our corporate assets, unless granted to a subsidiary;  
or

the repurchase of shares.

Shareholders may aggregate their votes for the election of directors and cast the same in favor of one person.

In general, Chilean law does not require a Chilean open stock corporation to provide the level and type of information that U.S. securities laws require a reporting company to provide to its shareholders in connection with a solicitation of proxies. Shareholders are entitled to examine the books of a company within the 15-day period before its ordinary annual meeting.

The Chilean Corporations Law provides that whenever shareholders representing 10% or more of the issued voting shares so request, a Chilean company's annual report must include, in addition to the materials provided by the board of directors to shareholders, any shareholders' comments and proposals in relation to the company's affairs. Similarly, the Chilean Corporations Law provides that whenever the board of directors of an open stock corporation convenes an ordinary meeting of the shareholders and solicits proxies for that meeting, or distributes information supporting its decisions or other similar material, it is obligated to include as an annex to its annual report any pertinent comments and proposals that may have been made by shareholders owning 10% or more of the company's voting shares who have requested that such comments and proposals be included.

Only shareholders registered as such with us on the fifth business day prior to the date of a meeting are entitled to attend and vote their shares. A shareholder may appoint another individual (who need not be a shareholder) as his proxy to attend and vote on his behalf. Every shareholder entitled to attend and vote at a shareholders' meeting has one vote for every share subscribed.

An Extraordinary Shareholders' Meeting was held on December 27, 2007 and the following issues were discussed and the following decisions were made:

Approval of the merger by absorption of Citibank Chile into Banco de Chile, under the terms set forth in the Merger Agreement executed by the parties on December 26, 2007. As a result of the merger, the Bank acquired all the assets and assumed all the liabilities of Citibank Chile, and it succeeded to all of the assets and all of the liabilities of the latter. The merger was approved by Citibank Chile's Extraordinary Shareholders' Meeting. In addition, the shareholders ratified the other agreements executed in connection with the Citibank Chile merger (i.e., the Asset Purchase Agreement, the License Agreement, the Cooperation Agreement and the Global Connectivity Agreement).

A capital increase was approved in the amount of Ch\$297,324,899,039, which was contributed and paid for as consideration for the acquisition of all of the assets and liabilities of Citibank Chile. It was resolved that the Bank would issue 8,443,861,140 registered, ordinary no-par Banco de Chile-S series shares, which were to be delivered to the shareholders of Citibank Chile, in the proportion of 8,443.86114 shares of Banco de Chile-S for each Citibank Chile share. The Banco de Chile-S series shares shall not be subject to the Exchange Agreement signed by the Central Bank of Chile and its subsequent modifications by virtue of the application of Agreements No. 1.167-03-041209 and No. 1.333-01-070510 of the Governing Council of the Central Bank of Chile.

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It was agreed that the merger was to become effective as of January 1, 2008, and that the profits of each bank corresponding to the financial year 2007 were to correspond in to the shareholders of each respective institution in the manner and under the conditions determined by the Ordinary Shareholders Meeting of the post-merger bank.

Some modifications to the Articles of Incorporation of Banco de Chile were approved, as proposed by the Board of Directors (as detailed below). The issuance of a rewritten, coordinated and systemized text of the Articles of Incorporation of the Bank was also approved.

The modifications to the Articles of Incorporation are as follows:

Article Fifth was amended in order to establish the new capital of the Bank, the new amount of shares and the creation of a new series of ordinary shares ( Banco de Chile-S );

Article Eight was modified in order to establishing that, in the case of any vacancy of alternate directors, any replacement director will be appointed by the Board so that the second alternate director will stand in the place of the first alternate director automatically;

Article Tenth was modified to change the term during which a Board of Directors meeting must be held when it has been convened by one or more directors, to modify the term of any notice for such meetings, and the means by which these notices can be carried out;

Article Fifteenth, was amended to establish a new system for replacing the Chairman. Accordingly, in case of absence or incapacity of the Chairman of the Board, he shall be replaced in his functions by a Director appointed by the Board of Directors, and not by the Vice President;

Article Nineteenth was modified in order to change the system by which an election at a shareholders meeting is conducted. The existing *viva voce* mechanism was replaced by voting by slip of paper for shareholder votes. Additionally, the counting of votes can be carried out by a notary public, without prejudice of the resolutions adopted by the shareholders or by the Superintendency; and

New transitional articles were included to make reference to the merger between Banco de Chile and Citibank Chile and to the new capital of the Bank.

At the Ordinary Shareholders Meeting of the Bank, held on March 27, 2008, the Board of Directors was renewed, due to the end of the legal and statutory three-year terms for the Directors. Alternate Directors were also designated. In addition, the shareholders agreed to the distribution and payment of dividend No. 196, in the amount of Ch\$3.359690 per Banco de Chile common share, with a charge to the 2007 income of Banco de Chile, and the distribution and payment of a dividend of Ch\$2.626161 per share of the Banco de Chile-S series.

### **Dividend, Liquidation and Appraisal Rights**

For a description of the provisions of our *estatutos* related to our dividends, see Item 8. Financial Information Consolidated Statements and Other Financial Information Dividends.

Under the Chilean Corporations Law, Chilean companies are generally required to distribute at least 30% of their earnings as dividends. Previously, the General Banking Law stated that banks were permitted to distribute less than such minimum amount in any given year with the approval of holders of at least two-thirds of the bank's common stock. In 2006, however, this possibility was eliminated by law. In the event of any loss of capital or decrease in the legal reserve, no dividends can be distributed until the loss is recovered. Also, a bank cannot distribute dividends above the legal minimum if doing so would result in the bank exceeding its maximum indebtedness ratio or its lending limits. See Item 8. Financial Information Consolidated Statements and Other Financial Information Dividends.



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Dividends that are declared but not paid by the date set for payment at the time of declaration are adjusted from the date set for payment to the date they are actually paid, and interest is accrued thereon. The right to receive a dividend lapses if it is not claimed within five years from the date the dividend is payable.

We may declare a dividend in cash or in shares. When a share dividend is declared above the legal minimum (which minimum must be paid in cash), our shareholders must be given the option to elect to receive cash. A U.S. holder of our ADSs may, in the absence of an effective registration statement under the Securities Act or an available exemption from the registration requirement thereunder, effectively be required to receive a dividend in cash. See Preemptive Rights and Increases of Share Capital.

In the event of our liquidation, the holders of our fully paid shares would participate equally and ratably, in proportion to the number of paid-in shares held by them, in our assets available after payment of all our creditors.

In accordance with the General Banking Law, our shareholders would have no appraisal rights in the event of a business combination or otherwise.

## **Approval of Financial Statements**

Our board of directors is required to submit our audited consolidated financial statements to the shareholders annually for their approval. The approval or rejection of the financial statements is entirely within our shareholders' discretion. If our shareholders reject our financial statements, our board of directors must submit new financial statements not later than 60 calendar days from the date of the rejection. If our shareholders reject our new financial statements, our entire board of directors is deemed removed from office and a new board of directors is elected at the same meeting. Directors who individually approved our financial statements are disqualified from running for re-election for the ensuing period.

## **Registrations and Transfers**

We act as our own registrar and transfer agent, as is customary among Chilean companies. In the case of jointly owned shares, an attorney-in-fact must be appointed to represent the joint owners in dealings with us.

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**EXCHANGE CONTROLS**

The Central Bank is responsible for, among other things, monetary policies and exchange controls in Chile. Appropriate registration of a foreign investment in Chile grants the investor access to the Formal Exchange Market. Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 or can be registered with the Central Bank under the Central Bank Act.

On April 16, 2001, the Central Bank agreed that, effective April 19, 2001:

the prior foreign exchange restrictions would be eliminated; and

a new *Compendio de Normas de Cambios Internacionales*, or Compendium of Foreign Exchange Regulations, would be applied. The main objective of this change, as declared by the Central Bank, is to facilitate capital movements from and into Chile and encourage foreign investment.

The following specific restrictions were eliminated:

a reserve requirement with the Central Bank for a period of one year. This mandatory reserve was previously imposed on foreign loans and funds brought into Chile to purchase shares other than those acquired in the establishment of a new company or in the capital increase of the issuing company. This reserve requirement was decreased from 30% to 0% of the proposed investment on September 16, 1998;

the requirement for prior approval by the Central Bank for certain operations, such as repatriation of investments and payments to foreign creditors;

the mandatory return of foreign currencies to Chile; and

the mandatory conversion of foreign currencies into Chilean pesos.

Under the amended regulations, only the following limitations are applicable to these operations:

the Central Bank must be provided with information related to certain operations, such as foreign investments and foreign credits; and

certain operations, such as money transfers to and from Chile must be conducted within the Formal Exchange Market. The Central Bank also eliminated Chapter XXVI of the Compendium of Foreign Exchange Regulations, which regulated the establishment of an ADR facility by a Chilean company. According to the new rules, it is not necessary to seek the Central Bank's prior approval in order to establish an ADR facility. The establishment of an ADR facility is now regarded as an ordinary foreign investment. The establishment of an ADR facility now simply requires that the Central Bank be informed of the transaction, and that the transaction be conducted exclusively through the Formal Exchange Market.

**Foreign Investment Contract**

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We are a party, as legal successor of Banco de A. Edwards, to the currently existing foreign investment contract with the Central Bank and the depositary (a copy of which was filed as an exhibit to our Registration Statement on Form F-4 (File No. 333-14020) filed with the Securities and Exchange Commission on October 18, 2001). Absent the foreign investment contract, under applicable Chilean exchange controls, investors would not be granted access to the Formal Exchange Market for the purpose of converting pesos to U.S. dollars and repatriating from Chile amounts received with respect to deposited shares or shares withdrawn from deposit on surrender of ADSs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying shares and any rights arising therefrom).

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The following is a summary of the material provisions of the foreign investment contract. This summary does not purport to be complete and is qualified in its entirety by reference to the foreign investment contract. Under the foreign investment contract, the Central Bank agrees to grant to the depositary, on behalf of ADR holders, and to any investor not residing or domiciled in Chile who withdraws shares upon delivery of ADRs (we refer to such shares as withdrawn shares), access to the Formal Exchange Market to convert pesos to U.S. dollars (and remit such U.S. dollars outside of Chile) in respect of shares represented by ADSs or withdrawn shares, including amounts received as:

cash dividends;

proceeds from the sale in Chile of withdrawn shares (subject to receipt by the Central Bank of a certificate from the holder of the withdrawn shares (or from an institution authorized by the Central Bank) that such holder's residence and domicile are outside Chile and a certificate from a Chilean stock exchange (or from a brokerage or securities firm established in Chile) that such withdrawn shares were sold on a Chilean stock exchange);

proceeds from the sale in Chile of rights to subscribe for additional shares;

proceeds from our liquidation, merger or consolidation; and

other distributions, including without limitation those resulting from any recapitalization as a result of holding shares represented by ADSs or withdrawn shares.

Transferees of withdrawn shares will not be entitled to any of the foregoing rights unless the withdrawn shares are redeposited with the depositary. Investors receiving withdrawn shares in exchange for ADRs will have the right to redeposit such shares in exchange for ADRs, provided that the conditions to redeposit are satisfied.

The foreign investment contract provides that a person who brings foreign currency into Chile to purchase shares with the benefit of the foreign investment contract must convert the foreign currency into pesos on the same date as the foreign currency is brought into Chile and then has five banking business days within which to invest the currency in shares in order to receive the benefits of the foreign investment contract. If the person decides within that period not to acquire shares, he or she can access the formal exchange market to reacquire dollars, provided that the applicable request is presented to the Central Bank within seven banking business days of the initial conversion into pesos. Shares acquired as described above may be deposited for ADSs and receive the benefits of the foreign investment contract, subject to:

receipt by the Central Bank of a certificate from the depositary that such deposit has been effected and that the related ADRs have been issued; and

receipt by the custodian of a declaration from the person making such deposit waiving the benefits of the foreign investment contract with respect to the deposited shares.

Access to the Formal Exchange Market under any of the circumstances described above is not automatic. Such access requires approval of the Central Bank based on a request presented through a banking institution established in Chile. The foreign investment contract provides that if the Central Bank has not acted on the request within seven banking days, the request will be deemed approved.

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Under current Chilean law, the foreign investment contract cannot be changed unilaterally by the Central Bank, and there are judicial precedents (which are not binding with respect to future judicial decisions) indicating that the foreign investment contract may not be abrogated by future legislative changes. On May 10, 2007, the Board of the Central Bank resolved to interpret the regulations regarding the previously established Chapter XXVI in connection with the access granted to the Formal Exchange Market. These regulations allow entities that endeavor to carry out capital increases by means of the issuance of cash shares before August 31, 2007 to apply the aforementioned regulation to their capital increases, but only once and only if those shares can be fully subscribed and paid by August 31, 2008, among other conditions. Consequently, capital increases carried out after August 31, 2007 (including, for example, the issuance of the Banco de Chile-S series shares in connection with our merger with Citibank Chile) will have no guaranteed access to the Formal Exchange Market. Furthermore, there is no assurance that (i) additional Chilean restrictions may be inapplicable to the holders of ADRs, (ii) the disposition of underlying shares or the repatriation of the proceeds from such disposition will be subject to restrictions in the future and (iii) we cannot assess the duration or impact of such restrictions if imposed.

## TAXATION

### **Chilean Tax Considerations**

The following discussion is based on certain Chilean income tax laws presently in force, including Ruling No. 324 of January 29, 1990 of the *Servicio de Impuestos Internos*, or the Chilean Internal Revenue Service, and other applicable regulations and rulings. The discussion summarizes the principal Chilean income tax consequences of an investment in ADSs or shares of common stock by an individual who is not domiciled in, or a resident of, Chile or a legal entity that is not organized under the laws of Chile and does not have a permanent establishment located in Chile, which we refer to as a foreign holder. For purposes of Chilean tax law, an individual holder is a resident of Chile if he or she has resided in Chile for more than six consecutive months in one calendar year or for a total of more than six months, whether consecutive or not, in two consecutive tax years. An individual holder is domiciled in Chile if he or she resides in Chile with the purpose of staying in Chile (such purpose to be evidenced by circumstances such as the acceptance of employment within Chile or the relocation of his or her family to Chile). This discussion is not intended as tax advice to any particular investor, which can be rendered only in light of that investor's particular tax situation.

Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign holders, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may be amended only by another statute. In addition, the Chilean tax authorities issue rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean taxes may not be assessed retroactively against taxpayers who act in good faith relying on such rulings and regulations, but Chilean tax authorities may change rulings and regulations prospectively. There is no general income tax treaty in force between Chile and the United States.

### ***Cash Dividends and Other Distributions***

Cash dividends paid by us with respect to ADSs or shares of common stock held by a foreign holder will be subject to a 35.0% Chilean withholding tax, which is withheld and paid over by us, which we refer to as the Chilean withholding tax. A credit against the Chilean withholding tax is available based on the level of corporate income tax, or first category tax, actually paid on the taxable income to which the dividend is imputed; however, this credit does not reduce the Chilean withholding tax on a one-for-one basis because it also increases the base on which the Chilean withholding tax is imposed. In addition, distribution of book income in excess of retained taxable income is subject to the Chilean withholding tax, but such distribution is not eligible for the credit. Under Chilean income tax law, for purposes of determining the level of the first category tax paid, dividends generally are assumed to have been paid out of oldest retained taxable profits. The effective rate of withholding tax to be imposed on dividends paid by us will vary depending upon the amount of first category tax paid by us on the earnings to which the dividends are attributed. In our case, the amount paid as first category tax is lower than it would be based on our income because the dividends paid to SAOS are accounted for as a cost to us. Presently, the first category tax rate is 17%. Whether the first category tax is imposed or not, the effective overall combined rate of Chilean taxes imposed with respect to our distributed profits is 35.0%.

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The foregoing tax consequences apply to cash dividends paid and dividend distributions made in property, other than shares of common stock. Share dividends are not subject to Chilean taxation.

### ***Capital Gains***

Gain realized on the sale, exchange or other disposition by a foreign holder of ADSs (or ADRs evidencing ADSs) will not be subject to Chilean taxation, provided that such disposition occurs outside Chile or that it is performed under the rules of Title XXIV of the Chilean Securities Market Law. The deposit and withdrawal of shares of common stock in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on the sale or exchange of shares of common stock (as distinguished from sales or exchanges of ADSs representing such shares of common stock) by a foreign holder will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter) if (1) the foreign holder has held such shares of common stock for less than one year since exchanging ADSs for the shares of common stock, (2) the foreign holder acquired and disposed of the shares of common stock in the ordinary course of its business or as a regular trader of stock or (3) the sale is made to a company in which the foreign holder holds an interest (10.0% or more of the shares in the case of open stock corporations). In all other cases, gain on the disposition of shares of common stock will be subject only to the first category tax levied as a sole tax. However, if it is impossible to determine the taxable capital gain, a 5.0% withholding will be imposed on the total amount to be remitted abroad, without any deductions, as a provisional payment of the total tax due.

The tax basis of shares of common stock received in exchange for ADSs will be the acquisition value of such shares on the date of the exchange. The valuation procedure set forth in the deposit agreement, which values shares of common stock that are being exchanged at the highest price at which they trade on the Santiago Stock Exchange on the date of the exchange, generally will determine the acquisition value for this purpose. Consequently, the conversion of ADSs into shares of common stock and sale of such shares of common stock for the value established under the deposit agreement will not generate a capital gain subject to taxation in Chile.

The distribution and exercise of preemptive rights relating to the shares of common stock will not be subject to Chilean taxation. Amounts received in exchange for the shares or assignment of preemptive rights relating to the shares will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter to the extent described above).

There is an exemption for the payment of income tax by foreign institutional investors such as mutual funds, pension funds and others, that obtain capital gains in the sales through a Chilean stock exchange, a tender offer or any other system authorized by the Chilean Superintendency of Securities and Insurance, of shares of publicly traded corporations that are significantly traded in stock exchanges. The Chilean Internal Revenue Service has not enacted any rule nor issued any ruling about the applicability of this regulation to foreign holders of ADSs.

A foreign institutional investor is an entity that is either:

a fund that makes public offers of its shares in a country whose public debt has been rated investment grade by an international risk classification agency qualified by the Chilean Superintendency of Securities and Insurance;

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a fund that is registered with a regulatory entity of a country whose public debt has been rated investment grade by an international risk classification agency qualified by the Chilean Superintendency of Securities and Insurance, provided that the investments in Chile, including securities issued abroad that represent Chilean securities, held by the fund represent less than 30.0% of its share value;

a fund that holds investments in Chile that represent less than 30.0% of its share value, provided that it proves that no more than 10.0% of its share value is directly or indirectly owned by Chilean residents;

a pension fund that is exclusively formed by individuals that receive their pensions on account of capital accumulated in the fund;

a fund regulated by the Foreign Capital Investment Funds Law, Law No. 18,657, in which case all holders of its shares must reside abroad or be qualified as local institutional investors; or

another kind of institutional foreign investor that complies with the regulatory requirements of the prior report of the Chilean Superintendency of Securities and Insurance and the Chilean Internal Revenue Service.

In order to be entitled to the exemption, foreign institutional investors, during the time in which they operate in Chile, must:

be organized abroad and not be domiciled in Chile;

not participate, directly or indirectly, in the control of the issuers of the securities in which it invests and not hold, directly or indirectly, 10.0% or more of such companies' capital or profits;

execute an agreement in writing with a Chilean bank or securities broker in which the intermediary is responsible for the execution of purchase and sale orders and for the verification, at the time of the respective remittance, that such remittances relate to capital gains that are exempt from income tax in Chile or, if they are subject to income tax, that the applicable withholdings have been made; and

register in a special registry with the Chilean Internal Revenue Service.

Also, the sale or disposition of shares of Chilean public corporations that are significantly traded on stock exchanges is exempted from Chilean taxes on capital gains if the sale or disposition was made:

on a local stock exchange or any other stock exchange authorized by the Chilean Superintendency of Securities and Insurance or in a tender offer process according to Title XXV of the Chilean Securities Market Law, so long as the shares (a) were purchased on a public stock exchange or in a tender offer process pursuant to Title XXV of the Chilean Securities Market Law, (b) are newly issued shares issued in a capital increase of the corporation, or (c) were the result of the exchange of convertible bonds (in which case the conversion price is considered to be the price of the shares). In this case, gains exempted from Chilean taxes shall be calculated using the criteria set forth in the Chilean Income Tax Law; or

within 90 days after the shares would have ceased to be traded in specified volumes on a stock exchange. In such case, the gains exempted from Chilean taxes on capital gains will be up to the average price per share of the last 90 days. Any gains above the average price will be subject to the first category tax.



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Capital gains subject to taxation in Chile may be generated in the case where the sale of the shares is made on a day other than the date in which the exchange is recorded. On October 1, 1999, the Chilean Internal Revenue Service issued Ruling No. 3708, allowing Chilean issuers of ADSs to amend the deposit agreements to which they are parties in order to include a clause that states that, in the case that the exchanged shares are sold by the ADSs holders in a Chilean stock exchange, either on the same day in which the exchange is recorded in the shareholders registry of the issuer or within the two prior business days to such date, the acquisition price of such exchanged shares shall be the price registered in the invoice issued by the stock broker that participated in the sale transaction. Consequently, should we include this clause in the deposit agreement, the capital gain that may be generated if the exchange date is different than the date in which the shares received in exchange for ADSs were sold, will not be subject to taxation.

***Other Chilean Taxes***

No Chilean inheritance, gift or succession taxes apply to the transfer or disposition of the ADSs by a foreign holder but such taxes generally will apply to the transfer at death or by a gift of shares of common stock by a foreign holder. No Chilean stamp, issue, registration or similar taxes or duties apply to foreign holders of ADSs or shares of common stock.

**United States Federal Income Tax Considerations**

The following discussion summarizes the principal U.S. federal income tax considerations relevant to an investment in the ADSs or shares of common stock by a holder that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise will be subject to U.S. federal income tax on a net income basis in respect of the ADSs or shares of common stock, who is referred to as a U.S. holder, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase ADSs or shares of common stock. In particular, this discussion is directed only to U.S. holders that will hold ADSs or shares of common stock as capital assets and that have the U.S. dollar as their functional currency, and does not address the tax treatment of U.S. holders that are subject to special tax rules, such as banks, dealers in securities or currencies, regulated investment companies, real estate investment trusts, traders in securities electing to mark to market, financial institutions, insurance companies, tax-exempt entities, holders of 10% or more of our voting shares, certain short-term holders of ADSs or shares of common stock, persons holding ADSs or shares of common stock as a position in a straddle or conversion transaction, or as part of a synthetic security or other integrated financial transaction. Prospective purchasers who are U.S. holders are advised to consult their own tax advisors as to the overall United States federal, state and local tax consequences of their ownership of ADSs and the underlying shares of common stock.

The statements of United States tax laws set out below are based on the laws in force as of the date of this annual report and may be subject to any changes in United States law occurring after such date, including changes that may have retroactive effect.

***ADRs***

In general, U.S. holders of ADRs evidencing ADSs will be treated, for United States federal income tax purposes, as the beneficial owners of the underlying shares of common stock that are represented by those ADSs and evidenced by those ADRs.

***Cash Dividends and Other Distributions***

The gross amount of cash dividends paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) with respect to the shares of common stock or ADSs, including the net amount of the Chilean withholding tax withheld on the distribution (after taking into account the credit for the first category tax), will be includable in the gross income of a U.S. holder as foreign source dividend income on the day the dividends are received by the U.S. holder, in the case of shares of common stock, or by the depository, in the case of shares of common stock represented by ADSs, and will not be eligible for the dividends-received deduction allowed to corporations under the Internal Revenue Code of 1986, as currently in force. Dividends paid in Chilean pesos will be includable in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day they are received by the U.S. holder, in the case of shares of common stock, or the depository, in the case of shares of common stock represented by ADSs. U.S. holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any Chilean pesos received that are converted into U.S. dollars on a date subsequent to receipt.

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Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid a passive foreign investment company, or PFIC. The ADSs are listed on the NYSE and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2007 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2008 taxable year.

Based on existing guidance, it is not entirely clear whether dividends received with respect to the common stock will be treated as qualified dividends, because the common stock is not itself listed on a U.S. exchange. In addition, the U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or common stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of ADSs and common stock should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

The Chilean withholding tax (after taking into account the credit for the first category tax) will be treated as a foreign income tax that a U.S. holder may elect to deduct in computing its income tax or, subject to generally applicable limitations and conditions under the Internal Revenue Code, to credit against its U.S. federal income tax liability. For purposes of calculating the foreign tax credits, dividends paid on the common stock or ADSs will generally constitute foreign source passive income for U.S. tax purposes. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial. U.S. holders should consult their own advisors concerning the implications of these rules in light of their particular circumstances.

Distributions of additional shares of common stock (or rights to subscribe for shares of common stock) to U.S. holders with respect to the ADSs or shares of common stock that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

A non-U.S. holder, *i.e.*, a holder of shares of common stock or ADSs that is a nonresident alien individual or a foreign corporation generally will not be subject to U.S. federal income or withholding tax on dividends received on shares of common stock or ADSs, unless that income is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States.

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***Capital Gains***

Gain or loss realized by a U.S. holder on the sale, exchange or other disposition of ADSs or shares of common stock will be subject to U.S. federal income taxation as a capital gain or loss in an amount equal to the difference between the holder's adjusted basis in the ADSs or the shares of common stock and the amount realized on the disposition. The gain or loss generally will be a capital gain or loss. Capital gains realized by an individual U.S. holder are generally subject to a maximum tax rate of 15% with respect to property held for more than one year.

Gains realized by a U.S. holder on a sale or other disposition of ADSs or shares of common stock generally will be treated as U.S. source income. Because a U.S. holder generally may not use a foreign tax credit to reduce its U.S. federal income tax liability in respect of its U.S. source income, in the case of a disposition of shares of common stock (which, unlike a disposition of ADSs, would be taxable in Chile), the U.S. holder generally would not be able to utilize foreign tax credits in respect of any Chilean tax imposed on such a disposition unless such holder has other income from foreign sources, in the appropriate category, for purposes of the foreign tax credit limitation rules. U.S. holders should consult their tax advisors regarding the application of the foreign tax credit limitation rules to their investment in, and disposition of, the ADSs and shares of common stock.

Deposits and withdrawals of shares of common stock by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

A non-U.S. holder of shares of common stock or ADSs will not be subject to U.S. federal income or withholding tax on gain realized on the sale of shares of common stock or ADSs, unless (1) such gain is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States or (2) in the case of gain realized by an individual non-U.S. holder, the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

***Backup Withholding and Information Reporting***

In general, dividends paid to a U.S. holder and proceeds from a disposition of the ADSs or shares of common stock will be subject to information reporting requirements and the payments may be subject to U.S. backup withholding tax if the U.S. holder does not provide a taxpayer identification number or otherwise establish an exemption. Under certain circumstances, such payments made to a non-U.S. holder also may be subject to U.S. information reporting requirements and U.S. backup withholding tax, unless the holder certifies its non-U.S. status or otherwise establishes an exemption.

The foregoing discussion of Chilean and United States tax considerations is intended only to provide a general description of the principal relevant factors. The discussion is not intended as tax advice to any particular investor, which advice can be rendered only in light of that investor's particular tax situation. Investors should consult their tax advisors about the federal, state, local and foreign tax consequences to them of the purchase, ownership and disposition of ADSs or shares of common stock.

Also, the sale or disposition of shares of Chilean public corporations that are significantly traded on stock exchanges is exempted from Chilean taxes on capital gains if the sale or disposition was made:

on a local stock exchange or any other stock exchange authorized by the Chilean Superintendency of Securities and Insurance or in a tender offer process according to Title XXV of the Chilean Securities Market Law, so long as the shares (a) were purchased on a public stock exchange or in a tender offer process pursuant to Title XXV of the Chilean Securities Market Law, (b) are newly issued shares issued in a capital increase of the corporation, or (c) were the result of the exchange of convertible bonds (in which case the conversion price is considered to be the price of the shares). In this case, gains exempted from Chilean taxes shall be calculated using the criteria set forth in the Chilean Income Tax Law; or

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within 90 days after the shares would have ceased to be traded in specified volumes on a stock exchange. In such case, the gains exempted from Chilean taxes on capital gains will be up to the average price per share of the last 90 days. Any gains above the average price will be subject to the first category tax.

Capital gains subject to taxation in Chile may be generated in the case where the sale of the shares is made on a day other than the date in which the exchange is recorded. On October 1, 1999, the Chilean Internal Revenue Service issued Ruling No. 3708, allowing Chilean issuers of ADSs to amend the deposit agreements to which they are parties in order to include a clause that states that, in the case that the exchanged shares are sold by the ADSs holders in a Chilean stock exchange, either on the same day in which the exchange is recorded in the shareholders registry of the issuer or within the two prior business days to such date, the acquisition price of such exchanged shares shall be the price registered in the invoice issued by the stock broker that participated in the sale transaction. Consequently, should we include this clause in the deposit agreement, the capital gain that may be generated if the exchange date is different than the date in which the shares received in exchange for ADSs were sold, will not be subject to taxation.

***Other Chilean Taxes***

No Chilean inheritance, gift or succession taxes apply to the transfer or disposition of the ADSs by a foreign holder but such taxes generally will apply to the transfer at death or by a gift of shares of common stock by a foreign holder. No Chilean stamp, issue, registration or similar taxes or duties apply to foreign holders of ADSs or shares of common stock.

**DOCUMENTS ON DISPLAY**

The materials included in this annual report on Form 20-F, and exhibits thereto, may be inspected and copied at the Securities and Exchange Commission's public reference room in Washington, D.C. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. The Securities and Exchange Commission maintains a World Wide Web site on the Internet at <http://www.sec.gov> that contains reports and information statements and other information regarding us. The reports and information statements and other information about us can be downloaded from the Securities and Exchange Commission's website.

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### **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

#### **Introduction**

The bank is exposed to market risks, such as price and liquidity risks, due to unmatched positions in both our trading and accrual portfolios.

The trading portfolio is comprised of the following: currency positions, local government and local corporate bond holdings, time deposits, mortgage bonds issued by banks residing in Chile and derivatives (mainly FX forwards and swaps and a tiny portfolio of FX options and FX futures).

Cash balances that are not included in the trading portfolio are reflected in the accrual portfolio. The primary liability balances are: retail and corporate deposits (both DDA and time deposits); mortgage bonds (asset-backed securities matching mortgage loans); interbank borrowing, including trade-related facilities; and bonds issued for liquidity and interest rate hedging purposes. Asset balances include: corporate loans and trade facilities; consumer loans (including mortgage loans and cards activity); available-for-sale bonds holdings; interbank lending; trade loans; and all other asset balances such as fixed assets and accrued interests.

Accrual balances are mainly denominated in Ch\$ and CLF (Chilean inflation index, which is daily published and monthly computed by the Central Bank of Chile reflecting the previous month local inflation) terms, though some trade-related transactions are denominated in US dollars ( USD ) and Japanese yen ( JPY ). Trading transactions are mainly denominated in Ch\$, CLF and domestic USD, with some transactions linked to offshore hard currencies.

#### **The Risk Process**

The process is segregated in the following four steps:

Definition of risk-taking units within the trading and accrual portfolio, according to how the business is managing such exposures, which is closely linked to how the market trades the various products;

Identification of market factors involved in the transactions;

A limit and/or trigger setting process, which is aligned with the expected revenues of the Treasury activity (in order to ensure an adequate risk/return ratio); and

A strict and disciplined risk monitoring and reporting process, ensuring that the different relevant parties within the organization have a timely sense of the risks undertaken.

We control market risks primarily through a set of limits, which are approved by the Country Asset Liability Committee ( ALCO ). For a detailed explanation of these limits, see [Market Risk: Models and Measurement Accrual Portfolio](#) and [Market Risk: Models and Measurement The Trading Portfolio](#).

The Chairman of the Board, the Chief Executive Officer, the Planning & Research Head, the Market Risk Manager, the Treasurer/Trading Head and the Corporate Bank Head participate in the ALCO. The ALCO approves market risk limits based on a business strategy analysis, expected market volatility, trading liquidity of the products involved, management experience and our overall risk tolerance. The frequency of monitoring and reporting the different exposures to market risks is based on the nature of each business.

Price risk generated by the trading portfolio is monitored and reported on a daily basis. The report includes the level of price risk, its evolution along the time and risk concentrations by products and business units. This report is submitted on a daily basis to relevant Treasury officers and the Market Risk Manager, and to other members of the ALCO.



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Price risk generated by accrual activities is monitored and reported on a monthly basis. The report includes interest rate risk exposure in Ch\$, CLF and foreign currencies and is distributed to the same parties mentioned in the previous paragraph.

Liquidity risk is monitored and reported on a daiy basis according to a behavioral model approved by the Chilean Superintendency of Banks.

### **The Role of Market Risk Management**

The various markets risks are computed, controlled and reported by the Market Risk Management unit (see below for a complete list of duties). This unit is part of the Planning and Research area and, as such, is fully independent from the business. The Market Risk Management unit oversees the local Treasury business and the resulting financial positions due to our international transactions.

The main responsibilities and duties of this unit, among others, include:

Daily tracking of FX, FX volatility and interest rate positions;

Daily update of market prices to the corresponding databases;

Market risk measurement, which involves the quantification of business exposures and the computation of price and liquidity risks under normal and stress circumstances, using different risk models. This includes both internal and regulatory models;

Establishment and review of market risk policies and procedures;

Preparation of an adequate set of internal market risk limits (in addition to those required by the local regulators) which must reflect the risk-return tolerance of the board;

Market risk monitoring, in which the exposures and risks are checked against limits and/or triggers, the breaches and excesses are reported to the appropriate levels in a timely manner and the policy exceptions (such as the teim framework) are managed;

Involvement in the development and release of new products, identifying new market factors and taking care of the risk aggregation process; and

Generation and maintenance of credit risk factors for derivative transactions.

The Market Risk Management unit is responsible for informing the relevant Treasury units about the state of all risk limits in a timely fashion. In addition, the Treasury units and senior ALCO members are notified whenever a limit is exceeded.

Limit excesses are not permitted unless operational errors have occurred. If any risk limit is exceeded, the responsible Treasury unit must document the causes of the excess and it may require a permanent limit increase only after curing the excess. Temporary limits increase may be requested but such requests must be made prior to entering into any transactions that may generate excesses.

Limits are reviewed and approved annually unless market conditions or a business activity increase requires increased limits (in such case, a new risk-return analysis is performed).



**Table of Contents****Market Risk**

Market risk is usually classified into two categories: price risk and liquidity risk. Price risk refers to the potential loss arising from unfavorable directional market movements of interest rates, FX rates or volatility levels, including the correlation among these market factors. Liquidity risk refers to the inability to obtain funding (Funding Liquidity risk) or to the potential material impact of defeasing assets (Trading Liquidity risk). The following sections quantify the potential impact of these risks.

**Price risk****Interest rate risk**

We are exposed to interest rate risk in both the accrual and the trading portfolios. In the case of the accrual portfolio, interest rate risk arises from holding assets and liabilities with different repricing tenors. Changes in interest rates also impact the underlying economic value of our assets and liabilities as the present value of future cash flows changes when interest rates change. With respect to the trading portfolio, interest rate risk is the change in the value of the portfolio due to the fluctuations of interest rates.

**Currency risk**

We are exposed to currency risk given that we hold, for some specific currencies, unmatched balances including the cash (or on-balance) balance items and the net present value of off-balance cashflows we receive and pay in the future. Given that accrual FX positions are not permitted, all cash balance items are marked to prevailing FX rates regardless of whether the transaction itself is booked in either the Trading book or the Accrual book, and the difference in value is reported in the P&L statement. Derivatives or off-balance transactions are always booked in Trading accounts and therefore the daily FX rate fluctuation of these instruments is always reported in the P&L statement.

We usually hold Ch\$ positions against the USD and, to a lesser extent, Brazilian real, JPY and euro positions against the USD. Other FX positions are not significant.

The foreign currency balance, separated by currency, is illustrated below as of December 31, 2007:

|                            | <b>At December 31, 2007</b>                                      |                         |                   |
|----------------------------|--|-------------------------|-------------------|
|                            | <b>Assets</b>  | <b>Liabilities</b>      | <b>Net</b>        |
|                            | <b>(in millions of constant en Ch\$ as of December 31, 2007)</b> |                         |                   |
| U.S. dollar <sup>(1)</sup> | Ch\$ 2,517,752   | Ch\$ (1,964,940)        | Ch\$ 552,812      |
| Japanese yen               | 5,429  | (608,418)               | (602,989)         |
| Euro                       | 87,244   | (60,235)                | 27,009            |
| Brazilian real             | 22,194   |                         | 22,194            |
| Pound sterling             | 3,013  | (911)                   | 2,102             |
| Canadian dollar            | 619  | (362)                   | 257               |
| Swiss franc                | 401  | (74)                    | 327               |
| Other                      | 7,650  | (7,046)                 | 604               |
| <b>Total</b>               | <b>Ch\$ 2,644,302</b>  | <b>Ch\$ (2,641,986)</b> | <b>Ch\$ 2,316</b> |

(1) Includes Ch\$81,820 million in assets and Ch\$225 million in liabilities denominated in foreign currencies and payable in Chilean pesos indexed to the U.S. dollar exchange rate.

**Inflation risk**

Debt securities and bank time deposits are issued either in Ch\$ or CLF terms. Debt securities or derivatives that include CLF as the currency are implicitly holding a real interest rate as the CLF is an inflation index.



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Whenever Ch\$ and CLF balances are not matched, we have a local inflation risk. We usually hold a long inflation position (a larger CLF asset balance than the CLF liability balance and vice versa in the case of Ch\$ balances). This is due to natural condition of the local capital markets, namely that bond demanders like pension funds and insurance companies request inflation-protected instruments and therefore most of the corporate bonds and Central Bank instruments purchased by the bank are denominated in CLF. In addition, most of our deposits (such as the DDA balance) are Ch\$ denominated. Conversely, long-term loans are placed in CLF terms, as in the case of mortgage loans without a linked back security.

The local annual inflation reached 7.8% in 2007, which was above the Central Bank of Chile's target (3%) and also above market expectations at the beginning of last year. The higher-than-expected inflation rate helps to explain why the Treasury business performed well in 2007. This market factor has been showing increasing short-term volatility since 2006 even though the annual inflation has been showing a clear upward trend. As the expected inflation for 2008 is still above the target established by the Central Bank of Chile, the Treasury will continue to closely monitor this market factor with a view to taking advantage of the current economic environment by managing its exposures accordingly. From a Treasury business standpoint, the Bank is well-protected from higher-than-expected inflation.

### ***Volatility risk***

We are exposed to both FX volatility (Ch\$/USD volatility only) and interest rate volatility risk. The former risk is due to our holding a small FX options portfolio and the latter risk is due to some of our mortgage CLF loans for which the interest rate for the customer is capped at some high OTM level.

### ***Liquidity risk***

#### ***Funding Liquidity risk***

Usually, our funding profile shows shorter tenors than those observed for our assets. Therefore, we are exposed to funding liquidity risk only in the event that our assets are not liquid enough to defease them in the corresponding secondary markets and the renewal of the funding is compulsory. The Bank is able to mitigate any contingency in this respect by diversifying its the fund providers and by avoiding maturity concentration.

#### ***Trading Liquidity risk***

We are exposed to trading liquidity risk whenever our assets may not be easily traded or do not show a deep secondary market for being sold/unwound. This may occur for a significant portion of our loans portfolio (however, a significant stake of our mortgage loan portfolio is fully matched with asset-back securities issued by the Bank) since sale transactions involving loans are rare. Additionally, some of our holdings of local corporate bonds, mortgage bonds and foreign Latin American bonds are subject to a shallow secondary market.

**Table of Contents****Balance Sheet Structure**

The balance sheet classified by currency and maturity tenor as of December 31, 2007 is illustrated below:

|   | As of December 31, 2007                |                       |                                    |                        |  | Percentage    |
|---|--|-----------------------|------------------------------------|------------------------|--|---------------|
|   | Ch\$                                   | UF                    | Foreign<br>Currency <sup>(1)</sup> | Total                  |  |               |
|   | (millions CLP, except for percentages) |                       |                                    |                        |  |               |
| <b>Assets<sup>(2)</sup>:</b>                              |  |                       |                                    |                        |  |               |
| Cash and due from banks                                   | Ch\$ 660,662                           |                       | Ch\$ 112,699                       | Ch\$ 773,361           |  | 5.3%          |
| <b>Other assets<sup>(1)</sup></b>                         |  |                       |                                    |                        |  |               |
| Less than one year  | 3,219,480                              | Ch\$ 1,694,834        | 2,258,900                          | 7,173,214              |  | 49.3          |
| From one to three years                                   | 798,955                                | 1,298,520             | 133,672                            | 2,231,147              |  | 15.4          |
| More than three years                                     | 570,188                                | 3,085,517             | 70,472                             | 3,726,177              |  | 25.6          |
| <b>Total financial assets</b>                             | <b>Ch\$ 5,249,285</b>                  | <b>Ch\$ 6,078,871</b> | <b>Ch\$ 2,575,743</b>              | <b>Ch\$ 13,903,899</b> |  | <b>95.6%</b>  |
| Other   | 550,452                                | 2,247                 | 68,116                             | 620,815                |  | 4.2           |
| Bank premises and equipment                               | 168,704                                |                       | 460                                | 169,164                |  | 1.2           |
| Investment in other companies                             | 7,357                                  |                       |                                    | 7,357                  |  | 0.1           |
| Allowance for loan losses                                 | (161,123)                              |                       | (17)                               | (161,140)              |  | (1.1)         |
| <b>Total assets</b>                                       | <b>Ch\$ 5,814,675</b>                  | <b>Ch\$ 6,081,118</b> | <b>Ch\$ 2,644,302</b>              | <b>Ch\$ 14,540,095</b> |  | <b>100.0%</b> |
| Percentage of total financial assets by currency          | 37.75%                                 | 43.72%                | 18.53%                             | 100.00%                |  |               |
| <b>Liabilities and shareholders equity<sup>(2)</sup>:</b> |  |                       |                                    |                        |  |               |
| Non-interest bearing demand deposits                      | Ch\$ 2,078,591                         | Ch\$ 8,442            | Ch\$ 424,864                       | Ch\$ 2,511,897         |  | 17.3%         |
| <b>Other liabilities<sup>(1)</sup></b>                    |  |                       |                                    |                        |  |               |
| Less than one year  | 3,932,336                              | 2,556,728             | 2,018,373                          | 8,507,437              |  | 58.5          |
| From one to three years                                   | 54,337                                 | 1,002,874             | 17,542                             | 1,074,753              |  | 7.4           |
| More than three years                                     | 881                                    | 975,988               | 94,147                             | 1,071,016              |  | 7.4           |
| <b>Total financial liabilities</b>                        | <b>Ch\$ 6,066,145</b>                  | <b>Ch\$ 4,544,032</b> | <b>Ch\$ 2,554,926</b>              | <b>Ch\$ 13,165,103</b> |  | <b>90.6%</b>  |
| Other   | 226,019                                | 10,520                | 87,060                             | 323,599                |  | 2.2           |
| Shareholders equity                                       | 809,105                                |                       |                                    | 809,105                |  | 5.6           |
| Net income  | 242,288                                |                       |                                    | 242,288                |  | 1.6           |
| <b>Total liabilities and shareholders equity</b>          | <b>Ch\$ 7,343,557</b>                  | <b>Ch\$ 4,554,552</b> | <b>Ch\$ 2,641,986</b>              | <b>Ch\$ 14,540,095</b> |  | <b>100.0%</b> |
| Percentage of total financial liabilities by currency     | 46.08%                                 | 34.52%                | 19.40%                             | 100.00%                |  |               |
| Asset/liability gap                                       | Ch\$ (1,528,882)                       | Ch\$ 1,526,566        | Ch\$ 2,316                         |                        |  |               |

(1) Includes assets and liabilities payable in Chilean pesos that are indexed according to the U.S. dollar exchange rate.

(2) Includes forward contracts.

**Market Risk: Models and Measurement**

The necessary data for running our market risk models is obtained from (i) brokers, (ii) government agencies with access to information provided by Reuters or Bloomberg, or (iii) prices available at issuers Internet sites. We maintain a daily risk factor database for FX rates, bond

YTM's and interest rates for various tenors and currencies.

***Accrual Portfolio***

The ALCO guidelines for the Accrual portfolio seek to protect the net interest revenues on a pre-tax basis and the value of equity from unexpected changes in interest rates. In order to achieve this purpose, a set of limits are jointly proposed by the business and Market Risk Management and approved, if applicable.

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We use the Interest Rate Gap Model to measure the interest rate risk of the net interest revenues and the Duration Gap Model to measure the interest rate risk of the equity. Currency risks in the Accrual portfolio are jointly managed with those generated by the Trading book activities and managed using the Value at Risk (VaR) methodology. See Market Risk: Value at Risk (VaR).

In addition, we strictly comply with the the limits imposed by our local regulators (the Central Bank of Chile and the Superintendency of Banks).

### ***12-Month Interest Rate Risk: The Interest Rate Gap Model***

Repricing risk results from unmatched repricing tenors of balance sheet items caused by changes in the yield curves, which may negatively impact our net interest income. The Interest Rate Gap Model uses the maturity or repricing schedules of balance sheet items and hedge-accounted derivatives to determine the differences between maturing or repricing items within given tenor buckets. A positive gap usually leads to a positive effect on the net interest revenue due to a rise in interest rates rise and vice versa.

Usually, we hold a positive one-year gap in CLF and a negative one-year gap in Ch\$ and foreign currency. The Treasury is responsible for managing the interest rate gaps and for defining the internal transfer pricing process with Market Risk Management. This is implemented through pseudo-transactions closed with non-Treasury business areas in order to leave the latter without interest rate exposures. Hence, the Treasury is the only business unit that may take mismatched interest rate exposures, though such exposures (and the corresponding risk associated with them) must be in line with the policies and procedures established by the ALCO.

To compute our exposure to repricing risk for the next 12 months, we prepare, on a monthly basis, gap profiles for inflation-indexed portfolios, non-inflation indexed portfolios and for dollar portfolios. To compute the different gap profiles we use the following tenor buckets:

Monthly, from one month to three months; and

Quarterly, from 90 days to a year.

Next, we compute the potential impact on net interest revenues over the next twelve months assuming a non-parallel shift in yield curves for non-inflation indexed, inflation and dollar positions. To limit repricing risk, the ALCO has required that total potential losses resulting from these shifts may not exceed a certain amount of net interest revenues.

As mentioned above, we hold a positive one-year CLF gap and a negative one-year Ch\$ and USD gaps, with the USD book much smaller than the other two. The risk of these positions is computed by subtracting the repricing risks for the Ch\$ and USD positions from the CLF repricing risk.

### ***Economic Interest Rate Risk: The Duration Gap Model***

Changes in interest rates also impact the Bank's underlying economic value. This phenomenon is referred as to the economic risk. The duration gap seeks to protect the economic value of the equity from unexpected fluctuations of interest rates. In order to do so, we compute potential losses for existing gaps for inflation-indexed and non-inflation positions, and for USD positions, considering interest rate shifts based on different volatility scenarios. The ALCO has established limits (which are set as a percentage of the Bank's capital) that prevent potential losses resulting from these scenario analyses.

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***Regulatory Models***

We control the interest rate risk for the accrual portfolio (computed according to regulatory guidelines) on a daily basis. The Superintendency of Banks has stated that two limits are to be observed and complied:

The short-term interest rate risk *plus* the estimated negative impact of fees collection due to the interest rate rise may not exceed a percentage of the 12-month rolling net interest rate revenues *plus* the net fees that are sensitive to interest rates (and which were actually charged within the prior 12 months). The regulator allows banks to set this percentage; in our case, the limit is 25%.

The long-term interest rate risk may not exceed a percentage of the equity. The latter is the addition of capital, subordinated debt and unremitted profits. The regulator allows banks to set the percentage; in our case, the limit is 25%. Both the short- and long-term interest rate risks are computed according to Basel accrual interest rate risk tables.

The pattern observed for these two limits during year 2007 is shown below:

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### ***Trading Portfolio***

Given that no single measure may completely capture all relevant aspects of Price risk, we use several risk measures (both statistical and non-statistical) to control the Price risk of the Trading portfolio. The statistical measure is VaR. The non-statistical measures are stress testing, DV01, basis risk and volume limit for fixed income portfolio and currency mismatch.

### ***Price Risk Value at Risk (VaR) measurement***

We measure, control and report the Price risk through VaR. VaR provides an estimate of the potential loss due to adverse market factors fluctuations over a specified time horizon at a defined level of confidence.

The trading portfolio is comprised of fixed income, currencies and derivatives transactions.

Fixed income positions refer to the debt instruments portfolio. Currently, all debt instruments held at Banco de Chile are classified in Trading accounts. Instruments included in this portfolio are Chilean Central Bank and Treasury bonds, local bank time deposits and mortgage bonds, local corporate bonds, corporate foreign issuers and sovereign bonds. Corporate bonds and mortgage bonds do not show high trading liquidity, therefore it is likely that they may be reclassified in available-for-sale accounts.

The foreign exchange positions include both the currency risk of the Trading portfolio and those balances of the Accrual portfolio (though no accrual FX positions are permitted).

The VaR is computed through Riskmetrics methodology. Riskmetrics utilizes a 95% confidence level, a one-day holding period and an exponential moving average model including 74 historical observations to forecast variances and co-variances. The resulting VaR is adjusted by market liquidity and by modelling bid-ask spreads. In addition to the total VaR, various sub-VaRs are computed, such as by market factor or business product/instrument.

We have computed VaR separated by market factor, as follows:

foreign exchange, measuring the risk due to the fluctuation of the FX rates (currencies against the USD); and

interest rates or yields, measuring the risk due to the fluctuation of interest rates/yields to different tenors for the Ch\$, CLF and USD yield curves.

We computed VaR separated by product/instrument, as follows:

the foreign exchange portfolio;

the short-term trading portfolio, which includes: FX forwards, short-term instruments issued by the Central Bank, time deposits issued by local banks (denominated in Ch\$, CLF and USD) and floating notes; and

the long-term trading portfolio, which includes long-term Central Bank bonds, mortgage bonds, local corporate bonds, foreign corporate bonds and swaps (interest rate swaps and cross currency swaps).

The Market Risk Management unit periodically checks the VaR model in order to assess its accuracy. The results of these tests have supported the reliability of our VaR model.

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The following tables show the median, low and high daily VaR for 2006 and 2007 and the year-end VaR for these two periods.

|                                 | Period Ended December 31, 2006 |             |             | As of December 31, |
|---------------------------------|--------------------------------|-------------|-------------|--------------------|
|                                 | Median VaR                     | Minimum VaR | Maximum VaR | 2006<br>VaR        |
|                                 | (millions CLP)                 |             |             |                    |
| Foreign exchange                | Ch\$ 114                       | Ch\$ 127    | Ch\$ 129    | Ch\$ 88            |
| Interest rate risk              | 471                            | 236         | 836         | 507                |
| Less: portfolio diversification | (86)                           | (121)       | (117)       | (126)              |
| Total VaR                       | Ch\$ 499                       | Ch\$ 242    | Ch\$ 848    | Ch\$ 469           |

|                                 | Period Ended December 31, 2007 |             |             | As of December 31, |
|---------------------------------|--------------------------------|-------------|-------------|--------------------|
|                                 | Median VaR                     | Minimum VaR | Maximum VaR | 2007<br>VaR        |
|                                 | (millions of CLP)              |             |             |                    |
| Foreign exchange                | Ch\$ 82                        | Ch\$ 116    | Ch\$ 158    | Ch\$ 1             |
| Interest rate risk              | 722                            | 460         | 1,567       | 1,075              |
| Less: portfolio diversification | (5)                            | (169)       | (137)       | (8)                |
| Total VaR                       | Ch\$ 799                       | Ch\$ 407    | Ch\$ 1,588  | Ch\$ 1,068         |

The chart below shows the behavior of the VaR and the NAPL (no-action profit and loss) in 2007. The NAPL is the hypothetical profit or loss that would have been incurred if the previous trading day closing position was revalued at the next trading day closing rates.

The NAPL exceeded the estimated VaR only four times in 2007, which means that the model is a good predictor of losses under the level of confidence in place.

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### **Assumptions and Limitations of the VaR Model**

The VaR model considers that the fluctuations of the prices and rates (market factors) follow a normal distribution and that the parameters of this aggregated distribution (correlations) have been estimated correctly. The normal distribution assumption, however, may lead to underestimations of the probability of extreme market moves. For this reason, we also make stress tests in order to estimate potential losses due to extreme swings. Stress testing is explained in the next section. Another limitation of the VaR methodology is that we compute risk at closing day. However, trading positions may vary sharply within the trading day, therefore the risk measured as of market close may not be the same as the risk measured during the trading session.

### ***Non-statistical Risk Measures***

*Stress Risk.* Stress risk is our exposure to unlikely but plausible changes, or outlier events, of the market factors levels resulting from maintaining prevailing positions after the close of a trading day. An extreme event is defined as a price fluctuation that is beyond the 95% confidence level defined for normal distribution analysis.

Once the market fluctuations for specific market factors have been determined, they are applied to the portfolio. The portfolio is then revalued to determine the impact on the value of the portfolio due to the market factor fluctuation.

The Market Risk Management unit makes a stress analysis for the Trading portfolio on a daily basis. Since we believe the VaR may be subject to model risk, we perform the stress analysis using two different methods: a standard VaR approach (parametric) and a historical simulation approach. The standard VaR approach considers that each market factor experiences a decline in value larger than 3.5 standard deviations of the mean return and assumes zero correlation among different market factor fluctuations. The Market Risk Management unit also computes a VaR figure using the historical simulation methodology. This amount is obtained from historical data that includes the prior 381 days from the date of the calculation.

*Present Value Basis Point ( PVBP ).* The PVBP is the change in an instrument's value due to a change in the reference yield of 1 basis point, or 0.01%. The ALCO approves the PVBP risk limit for each yield curve.

*Basis Risk.* Basis risk is the possibility of loss while offsetting positions in two related but not identical markets. We control our exposure to the basis risk between our foreign bonds portfolio and the USD interest rate swaps.

*Position Limit for Fixed Income Portfolio and Currency Mismatch.* To limit our exposure to interest rate risk, especially in periods of low volatility, we limit the notional size of our fixed income portfolio.

*Currency Risk.* The ALCO has determined that our net foreign currency mismatches cannot exceed a certain percentage of our capital. As of December 31, 2007, our foreign currency/foreign currency indexed assets exceeded the corresponding foreign currency/foreign currency indexed liabilities by Ch\$2,316 million, equivalent to 0.3% of our paid-in capital and reserves.

It is our policy to provide foreign currency (cash or indexed) loans only to customers whose activities generate foreign currency cash flows or indexed to a foreign currency or if the market value of a customer's assets is indexed to the rate of exchange. As of December 31, 2007, approximately 13.3% of our consolidated total loan portfolio was denominated in foreign currencies.

We enter into forward exchange transactions that are essentially of two types: (i) USD against hard currencies; and (ii) Ch\$ or CLF against USD.

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The following table shows the notional outstanding of our derivatives portfolio as of December 31, 2007:

|                         | <b>At December 31, 2007</b>                                   |                  |
|-------------------------|---|------------------|
|                         | <b>Notional Amount</b>  |                  |
|                         | <b>(in millions of constant Ch\$ as of December 31, 2007)</b> |                  |
| Currency forwards       | Ch\$  | 5,172,956        |
| Interest rate swaps     |   | 857,078          |
| Currency and rate swaps |   | 189,911          |
| Options                 |   | 618,397          |
| <b>Total</b>            | <b>Ch\$</b>   | <b>6,838,342</b> |

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The following table shows the notional amount of our foreign exchange rate risk instruments as of December 31, 2007 and the weighted average exchange rates by expected (contractual) maturity dates, for the next two years:

|   | As of December 31, 2007 <sup>(1)</sup>                 |                |                  |
|---|--|----------------|------------------|
|   | 2008   | 2009           | Total            |
|   | (in millions of constant Ch\$ as of December 31, 2007) |                |                  |
| <b>Purchased:</b>                                 |  |                |                  |
| Pay Chilean pesos / receive U.S. dollars          | 144,366  |                | 144,366          |
| Pay Chilean pesos / receive UF                    | 313,963  |                | 313,963          |
| Pay U.S. dollars / receive Canadian dollars       | 875  |                | 875              |
| Pay U.S. dollars / receive Pound sterling         | 5,551  |                | 5,551            |
| Pay U.S. dollars / receive Japanese yen           | 627,352  |                | 627,352          |
| Pay U.S. dollars / receive Noruega Conora         | 2,964  |                | 2,964            |
| Pay U.S. dollars / receive euros                  | 28,827   | 200            | 29,027           |
| Pay Chilean pesos / receive U.S. dollars          | 233,583  |                | 233,583          |
| Pay UF / receive U.S. dollars                     | 1,516,279  | 93,135         | 1,609,414        |
| Pay Chilean pesos / receive Pound sterling        | 247  |                | 247              |
| Pay Chilean pesos / receive euros                 | 4,649  |                | 4,649            |
| <b>Subtotal</b>                                   | <b>2,878,656</b>                                       | <b>93,335</b>  | <b>2,971,991</b> |
| <b>Sold:</b>                                      |  |                |                  |
| Futures Contract Pay euros / receive U.S. dollars | 18,256   | 200            | 18,456           |
| Pay U.S. dollars / receive Chilean pesos          | 176,098  | 59,003         | 235,101          |
| Pay UF / receive Chilean pesos                    | 488,859  | 19,623         | 508,482          |
| Pay Canadian dollars / receive U.S. dollars       | 1,438  |                | 1,438            |
| Pay Pound sterling / receive U.S. dollars         | 6,342  |                | 6,342            |
| Pay Japanese yen / receive U.S. dollars           | 19,910   |                | 19,910           |
| Pay Corona Noruega / receive U.S. dollars         | 3,304  |                | 3,304            |
| Pay euros / receive U.S. dollars                  | 3,409  |                | 3,409            |
| Pay Real Brasileño / receive U.S. Dollars         | 22,137   |                | 22,137           |
| Pay U.S. dollars / receive Chilean pesos          | 1,122,601  | 19,284         | 1,141,885        |
| Pay U.S. dollars / receive UF                     | 13,034   |                | 13,034           |
| Pay euros / receive Chilean pesos                 | 227,467  |                | 227,467          |
| <b>Subtotal</b>                                   | <b>2,102,855</b>                                       | <b>98,110</b>  | <b>2,200,965</b> |
| <b>Total</b>                                      | <b>4,981,511</b>                                       | <b>191,445</b> | <b>5,172,956</b> |

(1) Please note that we do not have any foreign exchange risk instruments with a maturity of greater than two years.

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### **Control of Foreign Branches Transactions**

In 2007, we applied the same policies and procedures detailed above with respect to the transactions booked at our New York and Miami branches. The only difference was the involvement of the respective business managers in the limit proposal process.

In 2007, we placed particular emphasis on monitoring interest rate risk of the overall position and price risk of the sovereign and corporate bonds portfolios booked at these branches. These branches did not hold any other positions significant enough to warrant risk calculation. We controlled the New York and Miami branches individually and on an aggregated basis consolidating their portfolios with the portfolio of the head office.

### **Derivatives Credit Risk**

We trade derivative transactions in order to meet our customers' needs, to generate revenues through trading activities and to manage our exposures to fluctuations of interest and currency rates.

When entering into derivative transactions, we use the same credit risk management process for traditional lending products. Our primary counterparts in derivative transactions are investment-grade financial institutions.

In terms of outstanding exposure to credit risk, the true measure of risk from derivative transactions is the mark-to-market value of the transaction at any time (i.e., the cost of replacing the transaction at current market rates should the counterpart default prior to the settlement). For most derivative transactions the notional principal amount does not change hands. Instead, it is simply an amount that is used as a reference upon which to calculate payments. While notional principal is the most commonly used volume measure in the derivative and foreign exchange markets, it is not a measure of credit risk.

In addition, we measure the expected loss at maturity of the transaction, following the local Superintendency of Banks guidelines. These guidelines state that in the event the transaction has a positive value for the bank, the risk at maturity may be expressed as the sum of the current mark-to-market value and the maximum likely increase in value. The latter amount is computed as the multiplication of some specific percentage factors by the notional amount. These percentage factors are based on the volatility of the underlying market factors and the repricing tenor of the transaction.

### **Item 12. Description of Securities Other than Equity Securities**

Not Applicable.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

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**Item 15. Controls and Procedures**

(a) Disclosure Controls and Procedures

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2007.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment and those criteria, management believes that the company maintained effective internal control over financial reporting as of December 31, 2007.

**Table of Contents****(c) Report of Independent Registered Public Accounting Firm on Internal Controls**

Ernst & Young, the independent accounting firm that has audited our financial statements, has issued an attestation report on management's assessment of our internal control over financial reporting as of December 31, 2007. This attestation report appears on page F-3.

**(d) Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16. [Reserved]****Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that Mr. Jorge Awad M., a member of our audit committee, qualifies as an audit committee financial expert and as independent within the meaning of this Item 16A.

**Item 16B. Code of Ethics**

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions, as well as to our directors and other employees without exception. A current copy of this code of ethics is filed as Exhibit 11.1 to this Form 20-F.

**Item 16C. Principal Accountant Fees and Services  
Audit and Non-Audit Fees**

The following table sets forth the fees billed to us by our independent auditors, Ernst & Young Limitada, during the fiscal years ended December 31, 2006 and 2007:

|                    | <b>Year ended December 31,</b>                                    |                 |
|--------------------|---|-----------------|
|                    | <b>2006</b>   | <b>2007</b>     |
|                    | <b>(in millions of constant Ch\$ as of<br/>December 31, 2007)</b> |                 |
| Audit fees         | Ch\$ 599  | Ch\$ 576        |
| Audit-related fees | 7   | 2               |
| Tax fees           | 5   |                 |
| Other fees         | 48  | 84              |
| <b>Total fees</b>  | <b>Ch\$ 659</b>   | <b>Ch\$ 662</b> |

Audit fees in the above table are the aggregate fees billed by Ernst & Young Limitada in connection with the audit of our annual financial statements. This line item includes: (i) reviews and advisory services related to filings with the LSE and the Securities and Exchange Commission, (ii) the statutory audit required by local regulations, (iii) the audit of the New York and Miami branches and (iv) the audit of the consolidated financial statements required by Item 18 of Form 20-F.

Audit-related fees in the above table are fees billed by Ernst & Young Limitada for other expenses related to review of our branches in Chile and the United States. This includes travel and subsistence expenses for the audit team.

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Tax fees in the above table are fees billed by Ernst & Young Limitada for tax-related services.

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Other fees in the above table are fees billed by Ernst & Young Limitada related to (i) compensation research studies, the audit and comfort letter process related to the issuance of Rule 144A bonds in the United States for 2006 and (ii) the due diligence process related to the acquisition of Legg Mason Chile Mutual Funds and the due diligence process related to the merger with Citibank Chile for 2007.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not Applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

We did not make any purchases of our previously issued shares during the fiscal year ended December 31, 2007.

**PART III**

**Item 17. Financial Statements**

Our financial statements have been prepared in accordance with Item 18 hereof.

**Item 18. Financial Statements**

Our audited consolidated financial statements are included in this annual report beginning at page F-1.

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**Item 19. Exhibits**

**LIST OF EXHIBITS**

| <b>Exhibit No.</b> | <b>Exhibit</b>   |
|--------------------|--|
| 1.1                | <i>Estatutos</i> of Banco de Chile, which serve as our articles of incorporation and bylaws (English translation).   |
| 2.1                | Form of Deposit agreement among Banco de Chile, JPMorgan Chase Bank as depositary, and the holders from time to time of ADSs (incorporated by reference to our registration statement on Form F-4 (File No. 333-14020) filed on October 18, 2001).   |
| 2.2                | Form of Foreign Investment Contract among Banco de A. Edwards, Citibank, N.A. and the Central Bank of Chile relating to the foreign exchange treatment of an investment in ADSs, together with an English translation thereof (incorporated by reference to Banco de A. Edwards registration statement on Form F-1 (Registration No. 33-97594) filed on September 29, 1995).                               |
| 2.3                | Amendment to Foreign Investment Contract among Banco de Chile (as successor to Banco de A. Edwards), Morgan Guaranty Trust Company of New York and the Central Bank of Chile, dated January 2, 2002, together with an English translation thereof (filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2001, and incorporated herein by reference). |
| 3.1                | Master Joint Venture Agreement between Quiñenco S.A., Citigroup, Inc. and Citibank Overseas Investment Corporation, dated July 19, 2007 (English translation).   |
| 3.2                | Shareholders Agreement between Quiñenco, S.A., Citigroup Chile S.A. and the minority shareholders of LQIF, dated December 27, 2007 (English translation).  |
| 4.1                | Merger Agreement between Banco de Chile and Citibank Chile, dated December 26, 2007 (English translation).   |
| 4.2                | Cooperation Agreement between Banco de Chile and Citigroup Inc., dated December 27, 2007 (English translation).  |
| 4.3                | Global Connectivity Agreement between Banco de Chile and Citigroup Inc., dated December 27, 2007 (English translation).  |
| 4.4                | Asset Purchase Agreement between Banco de Chile and Citibank, N.A., dated December 31, 2007 (English translation).   |
| 4.5                | License Agreement between Banco de Chile and Citigroup Inc., dated December 27, 2007 (English translation).  |
| 8.1                | List of subsidiaries   |
| 11.1               | Code of Professional Ethics (English translation).   |
| 12.1               | Certification under Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 12.2               | Certification under Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 13.1               | Certification under Section 906 of the Sarbanes-Oxley Act of 2002.   |

Omitted from the exhibits filed with this annual report are certain instruments and agreements with respect to our long-term debt, none of which authorizes securities in a total amount that exceeds 10% of our total assets. We hereby agree to furnish to the Securities and Exchange Commission copies of any such omitted instruments or agreements as the Securities and Exchange Commission requests.

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**SIGNATURE**

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

**BANCO DE CHILE**

By /s/ Fernando Cañas B.  
Name: Fernando Cañas B.  
Title: Chief Executive Officer

Date: June 27, 2008

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| <u>Notes to the Consolidated Financial Statements</u>   | F-10        |

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, 2005 and 2006 consolidated financial statements have been restated for general price-level changes and expressed in constant Chilean pesos of December 31, 2007 purchasing power.

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**Ernst & Young Chile**

Huérfanos 770, piso 5

Santiago

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**Report of Independent Registered Public Accounting Firm**

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

1. We have audited the accompanying consolidated balance sheets of Banco de Chile and subsidiaries (the "Bank") as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. 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.
2. 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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. 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 at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in Chile and 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 29 to the consolidated financial statements).
4. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Bank's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 25, 2008, expressed an unqualified opinion thereon.

ERNST & YOUNG LTDA.

Santiago, Chile

June 25, 2008

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**Report of Independent Registered Public Accounting Firm**

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

1. We have audited Banco de Chile's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Banco de Chile's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.
2. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
3. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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4. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
5. In our opinion, Banco de Chile maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.
6. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Banco de Chile and subsidiaries as of December 31, 2007 and 2006 and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 2007 and our report dated June 25, 2008, expressed an unqualified opinion thereon.

ERNST & YOUNG LTDA.

Santiago, Chile

June 25, 2008

**Table of Contents****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, 2007 and thousands of U.S. dollars)

|   | NOTE   | 2006<br>MCh\$     | As of December 31,<br>2007<br>MCh\$ | 2007<br>ThUS\$<br>(Note 1 (r)) |
|---|--------|-------------------|-------------------------------------|--------------------------------|
| <b>ASSETS</b>   |        |                   |                                     |                                |
| <b>CASH AND DUE FROM BANKS</b>  |        |                   |                                     |                                |
|   | 3      |                   |                                     |                                |
| Non-interest bearing  |        | 929,562           | 524,569                             | 1,057,983                      |
| Interbank deposits-interest bearing   |        | 379,723           | 248,792                             | 501,779                        |
| <b>Total cash and due from banks</b>  |        | <b>1,309,285</b>  | <b>773,361</b>                      | <b>1,559,762</b>               |
| <b>INVESTMENTS PURCHASED UNDER AGREEMENTS TO RESELL<br/>FINANCIAL INVESTMENTS</b> |        |                   |                                     |                                |
|   | 4      | 57,259            | 69,130                              | 139,426                        |
| Trading securities  |        | 1,285,978         | 1,247,481                           | 2,515,996                      |
| Available for sale  |        | 43,031            |                                     |                                |
| Held to maturity  |        | 17,187            |                                     |                                |
| <b>Total financial investments</b>  |        | <b>1,346,196</b>  | <b>1,247,481</b>                    | <b>2,515,996</b>               |
| <b>LOANS, NET</b>   |        |                   |                                     |                                |
|   | 5      |                   |                                     |                                |
| Commercial loans  |        | 4,264,756         | 4,981,777                           | 10,047,552                     |
| Consumer loans  |        | 1,151,676         | 1,257,738                           | 2,536,683                      |
| Mortgage loans  |        | 624,228           | 471,509                             | 950,968                        |
| Foreign trade loans   |        | 727,416           | 868,747                             | 1,752,142                      |
| Interbank loans   |        | 46,202            | 28,419                              | 57,317                         |
| Leasing contracts   | 6      | 579,075           | 651,726                             | 1,314,441                      |
| Other outstanding loans   |        | 1,821,934         | 2,223,875                           | 4,485,244                      |
| Past due loans  |        | 66,250            | 61,327                              | 123,690                        |
| Contingent loans  |        | 1,060,375         | 1,268,808                           | 2,559,009                      |
| Allowance for loan losses   | 7      | (155,707)         | (161,140)                           | (324,997)                      |
| <b>Total loans, net</b>   |        | <b>10,186,205</b> | <b>11,652,786</b>                   | <b>23,502,049</b>              |
| <b>DERIVATIVE INSTRUMENTS</b>   |        |                   |                                     |                                |
|   | 13     | 54,238            | 81,112                              | 163,592                        |
| <b>OTHER ASSETS</b>   |        |                   |                                     |                                |
| Bank premises and equipment, net  | 8      | 162,901           | 169,164                             | 341,180                        |
| Investments in other companies  | 9      | 8,262             | 7,357                               | 14,838                         |
| Assets received in lieu of payment, net   |        | 11,598            | 5,338                               | 10,766                         |
| Other   | 10 (a) | 568,603           | 614,781                             | 1,239,927                      |
| <b>Total other assets</b>   |        | <b>751,364</b>    | <b>796,640</b>                      | <b>1,606,711</b>               |
| <b>TOTAL ASSETS</b>   |        | <b>13,704,547</b> | <b>14,620,510</b>                   | <b>29,487,536</b>              |

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



**Table of Contents****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, 2007 and thousands of U.S. dollars)

|   | NOTE   | As of December 31, |                   |                   |
|---|--------|--------------------|-------------------|-------------------|
|   |        | 2006               | 2007              | 2007              |
|   |        | MCh\$              | MCh\$             | ThUS\$            |
|   |        |                    |                   | (Note 1 (r))      |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>            |        |                    |                   |                   |
| <b>DEPOSITS</b>                                       |        |                    |                   |                   |
| Non-interest bearing                                  |        |                    |                   |                   |
| Current accounts                                      |        | 1,867,656          | 1,961,430         | 3,955,932         |
| Bankers drafts and other deposits                     |        | 540,479            | 550,467           | 1,110,215         |
| Total non-interest bearing                            |        | <b>2,408,135</b>   | <b>2,511,897</b>  | <b>5,066,147</b>  |
| Interest bearing                                      |        |                    |                   |                   |
| Savings accounts and time deposits                    |        | 6,217,188          | 6,551,174         | 13,212,807        |
| Total deposits  |        | <b>8,625,323</b>   | <b>9,063,071</b>  | <b>18,278,954</b> |
| <b>OTHER INTEREST BEARING LIABILITIES</b>             |        |                    |                   |                   |
|   | 11     |                    |                   |                   |
| Central Bank credit lines for renegotiations of loans |        | 885                | 513               | 1,035             |
| Total Central Bank borrowings                         |        | <b>885</b>         | <b>513</b>        | <b>1,035</b>      |
| Investments sold under agreements to repurchase       |        | 329,563            | 301,979           | 609,050           |
| Mortgage finance bonds                                |        | 512,982            | 397,333           | 801,365           |
| Bonds   |        | 595,288            | 772,801           | 1,558,632         |
| Subordinated bonds                                    |        | 435,982            | 446,395           | 900,317           |
| Borrowings from domestic financial institutions       |        | 94,792             | 73,947            | 149,141           |
| Foreign borrowings                                    |        | 635,349            | 782,868           | 1,578,936         |
| Other obligations                                     |        | 28,388             | 58,490            | 117,966           |
| Total other interest bearing liabilities              |        | <b>2,633,229</b>   | <b>2,834,326</b>  | <b>5,716,442</b>  |
| <b>DERIVATIVE INSTRUMENTS</b>                         |        |                    |                   |                   |
|   | 13     | <b>75,132</b>      | <b>120,162</b>    | <b>242,350</b>    |
| <b>OTHER LIABILITIES</b>                              |        |                    |                   |                   |
| Contingent liabilities                                | 10 (c) | 1,061,498          | 1,267,706         | 2,556,787         |
| Other   | 10 (b) | 412,970            | 283,851           | 572,488           |
| Minority interest                                     |        | 2                  | 1                 | 2                 |
| Total other liabilities                               |        | <b>1,474,470</b>   | <b>1,551,558</b>  | <b>3,129,277</b>  |
| <b>SHAREHOLDERS EQUITY</b>                            |        |                    |                   |                   |
|   | 15     |                    |                   |                   |
| Capital and reserves                                  |        | 686,697            | 809,105           | 1,631,852         |
| Net Income for the year                               |        | 209,696            | 242,288           | 488,661           |
| Total Shareholders equity                             |        | <b>896,393</b>     | <b>1,051,393</b>  | <b>2,120,513</b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>      |        | <b>13,704,547</b>  | <b>14,620,510</b> | <b>29,487,536</b> |

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

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**Table of Contents****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, 2007 and thousands of U.S. dollars)

|   | NOTE  | 2005<br>MCh\$    | Years ended December 31,<br>2006<br>MCh\$ | 2007<br>MCh\$    | 2007<br>ThUS\$<br>(Note 1 (r)) |
|---|-------|------------------|---|------------------|--------------------------------|
| <b>INTEREST REVENUE AND EXPENSE</b>   |       |                  |   |                  |                                |
| Interest revenue  |       | 749,421          | 835,200                                   | 1,170,098        | 2,359,925                      |
| Interest expense  |       | (340,111)        | (399,790)                                 | (631,633)        | (1,273,916)                    |
| Net interest revenue  |       | <b>409,310</b>   | <b>435,410</b>                            | <b>538,465</b>   | <b>1,086,009</b>               |
| <b>PROVISION FOR LOAN LOSSES</b>  | 7-19  | <b>(24,155)</b>  | <b>(38,909)</b>                           | <b>(52,619)</b>  | <b>(106,125)</b>               |
| <b>FEES AND INCOME FROM SERVICES</b>  |       |                  |   |                  |                                |
| Income from fees and other services   | 17    | 201,566          | 206,844                                   | 224,775          | 453,340                        |
| Other services expenses   |       | (51,016)         | (63,313)                                  | (56,285)         | (113,519)                      |
| Total fees and income from services, net                                    |       | <b>150,550</b>   | <b>143,531</b>                            | <b>168,490</b>   | <b>339,821</b>                 |
| <b>OTHER OPERATING INCOME (LOSS)</b>  |       |                  |   |                  |                                |
| Gains from trading activities   |       | 15,585           | 43,755                                    | 5,330            | 10,750                         |
| Losses from trading activities  |       | (33,005)         | (8,764)                                   | (38,739)         | (78,131)                       |
| Foreign exchange transactions, net  |       | 25,942           | (11,601)                                  | 18,062           | 36,429                         |
| Total other operating income (loss), net                                    |       | <b>8,522</b>     | <b>23,390</b>                             | <b>(15,347)</b>  | <b>(30,952)</b>                |
| <b>OTHER INCOME AND EXPENSES</b>  |       |                  |   |                  |                                |
| Non-operating income  | 17    | 8,619            | 17,798                                    | 18,644           | 37,601                         |
| Non-operating expenses  | 17    | (16,196)         | (14,818)                                  | (15,017)         | (30,287)                       |
| Equity participation in net income (loss) in investments in other companies | 9     | 747              | 1,107                                     | (2,047)          | (4,129)                        |
| Minority interest   |       |                  | (1)                                       |                  |                                |
| Total other income and expenses   |       | <b>(6,830)</b>   | <b>4,086</b>                              | <b>1,580</b>     | <b>3,185</b>                   |
| <b>OPERATING EXPENSES</b>   |       |                  |   |                  |                                |
| Personnel salaries and expenses   |       | (165,159)        | (169,373)                                 | (192,011)        | (387,259)                      |
| Administrative and other expenses   |       | (119,496)        | (132,173)                                 | (118,169)        | (238,330)                      |
| Depreciation and amortization   |       | (18,556)         | (21,230)                                  | (23,233)         | (46,858)                       |
| Total operating expenses  |       | <b>(303,211)</b> | <b>(322,776)</b>                          | <b>(333,413)</b> | <b>(672,447)</b>               |
| <b>NET LOSS FROM PRICE-LEVEL RESTATEMENT</b>                                | 1 (b) | <b>(12,556)</b>  | <b>(9,157)</b>                            | <b>(37,948)</b>  | <b>(76,536)</b>                |
| <b>INCOME BEFORE INCOME TAXES</b>   |       | <b>221,630</b>   | <b>235,575</b>                            | <b>269,208</b>   | <b>542,955</b>                 |
| <b>INCOME TAXES</b>   | 21    | <b>(23,456)</b>  | <b>(25,879)</b>                           | <b>(26,920)</b>  | <b>(54,294)</b>                |
| <b>NET INCOME</b>   |       | <b>198,174</b>   | <b>209,696</b>                            | <b>242,288</b>   | <b>488,661</b>                 |

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

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**Table of Contents****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, 2007 and thousands of U.S. dollars)

|   | 2005<br>MCh\$      | Years ended December 31,<br>2006<br>MCh\$ | 2007<br>MCh\$<br>(Note 1 (o)) | 2007<br>ThUS\$<br>(Note 1 (r)) |
|---|--------------------|---|-------------------------------|--------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |                    |   |                               |                                |
| Net income  | 198,174            | 209,696                                   | 242,288                       | 488,661                        |
| Items that do not represent cash flows:                                     |                    |   |                               |                                |
| Depreciation and amortization   | 18,556             | 21,230                                    | 23,233                        | 46,858                         |
| Provisions for loan losses  | 60,326             | 69,088                                    | 87,743                        | 176,965                        |
| Provisions for assets received in lieu of payment                           | 629                | (2,137)                                   | 161                           | 325                            |
| Net change in trading investments   | 244,948            | 132,160                                   | 9,385                         | 18,928                         |
| Equity participation in net (income) loss in investments in other companies | (747)              | (1,107)                                   | 2,047                         | 4,129                          |
| Net gain on sales of assets received in lieu of payment                     | (5,562)            | (4,016)                                   | (1,407)                       | (2,838)                        |
| Net gain on sales of bank premises and equipment                            | (107)              | (58)                                      | (417)                         | (841)                          |
| Net loss from price-level restatement                                       | 12,556             | 9,157                                     | 37,948                        | 76,536                         |
| Minority interest   |                    | 1   |                               |                                |
| Other charges not representing cash flows                                   | 11,570             | 30,408                                    | 5,402                         | 10,895                         |
| Net change in interest accruals   | (67,708)           | 27,109                                    | (19,311)                      | (38,948)                       |
| <b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>                  | <b>472,635</b>     | <b>491,531</b>                            | <b>387,072</b>                | <b>780,670</b>                 |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |                    |   |                               |                                |
| Net increase in loans   | (1,013,458)        | (1,135,246)                               | (1,405,815)                   | (2,835,333)                    |
| Net increase in investments purchased under agreements to resell            | (22,353)           | (7,089)                                   | (15,810)                      | (31,886)                       |
| Purchases of bank premises and equipment                                    | (20,037)           | (23,779)                                  | (25,803)                      | (52,041)                       |
| Proceeds from sale of bank premises and equipment                           | 320                | 125                                       | 2,367                         | 4,774                          |
| Investments in other companies  | (1,826)            |   | (2,040)                       | (4,114)                        |
| Sale of investments in other companies                                      | 21                 | 8   |                               |                                |
| Dividends received from investments in other companies                      | 614                | 676                                       | 854                           | 1,722                          |
| Proceeds from sale of assets received in lieu of payment                    | 16,298             | 9,887                                     | 4,763                         | 9,606                          |
| Net changes in other assets and liabilities                                 | (302,569)          | (293,501)                                 | (577,918)                     | (1,165,580)                    |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                | <b>(1,342,990)</b> | <b>(1,448,919)</b>                        | <b>(2,019,402)</b>            | <b>(4,072,852)</b>             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |                    |   |                               |                                |
| Net increase in current accounts  | 100,500            | 239,217                                   | 222,472                       | 448,695                        |
| Net increase in savings accounts and time deposits                          | 991,821            | 1,244,162                                 | 662,341                       | 1,335,850                      |
| Net increase (decrease) in bankers drafts and other deposits                | (233,367)          | 20,161                                    | 46,930                        | 94,651                         |
| Net increase (decrease) in investments sold under agreements to repurchase  | (85,968)           | 38,835                                    | (4,854)                       | (9,790)                        |
| Increase in mortgage finance bonds  | 560,327            | 54,456                                    | 5,080                         | 10,246                         |
| Repayment of mortgage finance bonds   | (785,829)          | (127,211)                                 | (93,271)                      | (188,115)                      |
| Proceeds from bond issues   | 185,631            | 353,883                                   | 228,163                       | 460,173                        |
| Repayments of bond issues   | (15,608)           | (12,833)                                  | (38,510)                      | (77,669)                       |
| Net increase (decrease) in short-term borrowings                            | (406,798)          | 265,195                                   | (102,017)                     | (205,754)                      |
| Proceeds from issuance of long-term borrowings                              | 777,077            | 547,842                                   | 628,295                       | 1,267,184                      |
| Repayment of long-term borrowings   | (360,295)          | (897,335)                                 | (316,352)                     | (638,038)                      |

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|   |                  |                  |                  |                    |
|---|------------------|------------------|------------------|--------------------|
| Sale of repayment of shares   | 63,202           |                  |                  |                    |
| Repurchase of shares  |                  |                  | 84,349           | 170,120            |
| Dividends paid  | (167,359)        | (160,810)        | (161,411)        | (325,544)          |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                    | <b>623,334</b>   | <b>1,565,562</b> | <b>1,161,215</b> | <b>2,342,009</b>   |
| <b>EFFECT OF PRICE-LEVEL RESTATEMENT ON CASH AND DUE FROM BANKS</b> | <b>(41,778)</b>  | <b>(21,856)</b>  | <b>(64,809)</b>  | <b>(130,711)</b>   |
| <b>NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS</b>           | <b>(288,799)</b> | <b>586,318</b>   | <b>(535,924)</b> | <b>(1,080,884)</b> |
| <b>CASH AND DUE FROM BANKS AT BEGINNING OF YEAR</b>                 | <b>1,011,766</b> | <b>722,967</b>   | <b>1,309,285</b> | <b>2,640,646</b>   |
| <b>CASH AND DUE FROM BANKS AT END OF YEAR</b>                       | <b>722,967</b>   | <b>1,309,285</b> | <b>773,361</b>   | <b>1,559,762</b>   |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>            |                  |                  |                  |                    |
| <b>Cash paid during the year for:</b>                               |                  |                  |                  |                    |
| Interest paid   | 312,215          | 382,683          | 515,576          | 1,039,845          |
| Income taxes paid   | 35,242           | 38,090           | 45,788           | 92,348             |

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

**Table of Contents****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, 2007)

|  | Number of<br>shares<br>Millions | Paid in<br>share<br>capital<br>MCh\$ | Reserves<br>MCh\$ | Other<br>Accounts<br>MCh\$ | Net<br>Income<br>MCh\$ | Total<br>MCh\$ |
|--|---------------------------------|--------------------------------------|-------------------|----------------------------|------------------------|----------------|
| Balance as of January 1, 2005  | 66,377.8                        | 494,566                              | 25,907            | 1,432                      | 152,628                | 674,533        |
| Transfer to retained earnings  |                                 |                                      | 5                 |                            | (5)                    |                |
| Dividends paid (1)   |                                 |                                      |                   |                            | (152,623)              | (152,623)      |
| Placement of shares (2)  | 1,702.0                         |                                      | 57,637            |                            |                        | 57,637         |
| Accumulated deficit development period (3)   |                                 |                                      | (188)             |                            |                        | (188)          |
| Price-level restatement  |                                 | 17,804                               | 523               |                            |                        | 18,327         |
| Net change in unrealized gains (losses) on permanent financial investments (*)             |                                 |                                      |                   |                            | (74)                   | (74)           |
| Net adjustment for translation differences (**)  |                                 |                                      |                   | (3,229)                    |                        | (3,229)        |
| Net Income for the year  |                                 |                                      |                   |                            | 180,724                | 180,724        |
| Balance as of December 31, 2005  | 68,079.8                        | 512,370                              | 83,884            | (1,871)                    | 180,724                | 775,107        |
| Balance as of December 31, 2005 restated in constant Chilean pesos as of December 31, 2007 |                                 | 561,841                              | 91,983            | (2,052)                    | 198,174                | 849,946        |
| Balance as of January 1, 2006  | 68,079.8                        | 512,370                              | 83,884            | (1,871)                    | 180,724                | 775,107        |
| Transfer to retained earnings  |                                 |                                      | 10                |                            | (10)                   |                |
| Capitalization of retained earnings (4)  | 957.8                           | 30,984                               |                   |                            | (30,984)               |                |
| Dividends paid (4)   |                                 |                                      |                   |                            | (149,730)              | (149,730)      |
| Adjustment to fair value as result of adoption of Circular 3,345 (5)                       |                                 |                                      | 960               |                            |                        | 960            |
| Price-level restatement  |                                 | 11,411                               | 1,321             |                            |                        | 12,732         |
| Net change in unrealized gains (losses) on permanent financial investments (*)             |                                 |                                      |                   |                            | (11)                   | (11)           |
| Net adjustment for translation differences (**)  |                                 |                                      |                   | 325                        |                        | 325            |
| Net Income for the year  |                                 |                                      |                   |                            | 195,248                | 195,248        |
| Balance as of December 31, 2006  | 69,037.6                        | 554,765                              | 86,175            | (1,557)                    | 195,248                | 834,631        |
| Balance as of December 31, 2006 restated in constant Chilean pesos as of December 31, 2007 |                                 | 595,818                              | 92,551            | (1,672)                    | 209,696                | 896,393        |
| Balance as of January 1, 2007  | 69,037.6                        | 554,765                              | 86,175            | (1,557)                    | 195,248                | 834,631        |
| Transfer to retained earnings  |                                 |                                      | 4                 |                            | (4)                    |                |
| Capitalization of retained earnings (6)  | 882.4                           | 33,833                               |                   |                            | (33,833)               |                |
| Dividends paid (6)   |                                 |                                      |                   |                            | (161,411)              | (161,411)      |
| Subscription and payment of shares (7)   | 2,076.1                         | 84,349                               |                   |                            |                        | 84,349         |
| Price level restatement  |                                 | 47,278                               | 6,755             |                            |                        | 54,033         |
| Net change in unrealized gains (losses) on permanent financial investments (*)             |                                 |                                      |                   |                            | 7                      | 7              |
| Net adjustment for translation differences (**)  |                                 |                                      |                   | (2,504)                    |                        | (2,504)        |

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|  |                 |                |               |                |                |                  |
|--|-----------------|----------------|---------------|----------------|----------------|------------------|
| Net income for the year                |                 |                |               |                | 242,288        | 242,288          |
| <b>Balance as of December 31, 2007</b> | <b>71,996.1</b> | <b>720,225</b> | <b>92,934</b> | <b>(4,054)</b> | <b>242,288</b> | <b>1,051,393</b> |

- (1) On March 17, 2005, the Ordinary General Shareholders Meeting agreed to distribute a dividend for a total of MCh\$152,623 (in historical pesos).
  - (2) During the period from May to August 2005, Banco de Chile sold 1,701,994,590 shares issued by Banco de Chile that had been repurchased as part of its Share Repurchase Program in April 2004, for a total amount of MCh\$57,637 (in historical pesos).
  - (3) Relates to the recognition of the variation in the shareholders equity of Administrador Financiero de Transantiago S.A., a banking support company, during its development period.
  - (4) On March 23, 2006, at the Extraordinary Shareholders Meeting of Banco de Chile, the shareholders agreed to increase the Bank's capital, through the capitalization of 30% of total income for the year 2005. On March 28, 2006, the Central Bank of Chile communicated its decision of opting for the cash payment of all income payable to it as creditor of the subordinated debt. Consequently, the amount capitalized was MCh\$30,984 (in historical pesos), through the issuance and distribution of 957.8 million shares. This implied the distribution of a dividend totaling MCh\$149,730 (in historical pesos).
  - (5) Relates to the valuation difference generated by the application of Circular No. 3,345, for those financial instruments and derivatives in force as of December 31, 2005 (See Note 2).
  - (6) On March 22, 2007, the Extraordinary General Shareholders Meeting agreed to increase its capital through the capitalization of 30% of 2006 net income. On March 26, 2007 the Central Bank of Chile communicated its decision to be paid in cash all the income corresponding to it. Consequently, the capitalized amount was Ch\$33,832.8 (historical) through issuance and distribution of 882,459,200 shares. This implied distributing a dividend in the total amount of MCh\$161,411.3 (historical).
  - (7) The Extraordinary General Shareholders Meeting of Banco de Chile, held on May 17, 2007, agreed to increase the Bank's capital in the amount of Ch\$110 thousand million through issuance of 2,516,010,979 cash shares without par value.
- As of December 31, 2007, 2,076,059,351 cash shares have been subscribed and paid amounting MCh\$84,349 (historical).

(\*) These balances are presented net of the deferred taxes originated from adjustments to the market value of the available for sale securities of the New York Branch.

(\*\*) Relates to the valuation of investments in branches abroad (See Note 1 (s)).

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

**Table of Contents****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, 2007)

**1. Summary of Significant Accounting Policies***(a) Basis of presentation*

Banco de Chile ( Banco de Chile or the Bank ) 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 Financial Institutions ). Starting in 2001, Banco de Chile is regulated by the United States Securities and Exchange Commission ( SEC ), as Banco de Chile is listed on the New York Stock Exchange ( NYSE ), through its American Depositary Receipt ( ADR ) program, which are also listed on the London Stock Exchange. Banco de Chile's shares are also listed on the Latin American Securities Market of the Madrid Stock Exchange ( LATIBEX ).

Banco de Chile offers a broad range of banking services to customers, ranging from individuals to large corporations. The services are managed in the following segments for internal reporting purposes: wholesale, retail market, international banking and treasury. Banco de Chile'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.

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 periods. 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, Banco de Chile 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, 2006 and 2007 are as follows:

**Subsidiary**

|  | Interest Owned % |          |        |        |          |        |
|--|------------------|----------|--------|--------|----------|--------|
|  | 2006             |          |        | 2007   |          |        |
|  | Direct           | Indirect | Total  | Direct | Indirect | Total  |
| Banco de Chile Sucursal Nueva York             | 100.00           |          | 100.00 | 100.00 |          | 100.00 |
| Banco de Chile Sucursal Miami.                 | 100.00           |          | 100.00 | 100.00 |          | 100.00 |
| Banchile Trade Services Limited                | 100.00           |          | 100.00 | 100.00 |          | 100.00 |
| Banchile Administradora General de Fondos S.A. | 99.98            | 0.02     | 100.00 | 99.98  | 0.02     | 100.00 |
| Banchile Asesoría Financiera S.A.              | 99.96            |          | 99.96  | 99.96  |          | 99.96  |
| Banchile Corredores de Seguros Ltda.           | 99.75            | 0.25     | 100.00 | 99.75  | 0.25     | 100.00 |
| Banchile Corredores de Bolsa S.A.              | 99.68            | 0.32     | 100.00 | 99.68  | 0.32     | 100.00 |
| Banchile Factoring S.A.                        | 99.52            | 0.48     | 100.00 | 99.75  | 0.25     | 100.00 |
| Banchile Securitizadora S.A.                   | 99.00            | 1.00     | 100.00 | 99.00  | 1.00     | 100.00 |
| Socofin S.A.                                   | 99.00            | 1.00     | 100.00 | 99.00  | 1.00     | 100.00 |
| Promarket S.A.                                 | 99.00            | 1.00     | 100.00 | 99.00  | 1.00     | 100.00 |



**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2007)****1. Summary of Significant Accounting Policies (continued)***(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 Banco de Chile 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.

For comparative purposes, the consolidated financial statements for periods through December 31, 2006 have been restated in Chilean pesos of general purchasing power as of December 31, 2007 ( constant pesos ), to reflect changes in the CPI from the financial statement dates to December 31, 2007. 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, 2007, as follows:

| <b>Year</b> | <b>Change in Index</b> |
|-------------|------------------------|
| 2005        | 9.7%                   |
| 2006        | 7.4%                   |

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:

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| <b>Year</b> | <b>Index (*)</b> | <b>Change in Index</b> |
|-------------|------------------|------------------------|
| 2005        | 121.53           | 3.6                    |
| 2006        | 124.11           | 2.1                    |
| 2007        | 133.34           | 7.4                    |

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

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**1. Summary of Significant Accounting Policies (continued)***(b) Price-level restatement (continued)*

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, 2007.

|  | Year ended December 31, |                |                 |
|--|-------------------------|----------------|-----------------|
|  | 2005                    | 2006           | 2007            |
|  | MCh\$                   | MCh\$          | MCh\$           |
| Shareholders' equity                         | (20,097)                | (13,674)       | (54,033)        |
| Bank premises and equipment                  | 5,124                   | 3,158          | 10,981          |
| Investment in other companies                | 236                     | 150            | 548             |
| Other  | 2,181                   | 1,209          | 4,556           |
| <b>Net loss from price-level restatement</b> | <b>(12,556)</b>         | <b>(9,157)</b> | <b>(37,948)</b> |

*(c) Index-linked assets and liabilities*

Certain of Banco de Chile'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 Banco de Chile'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\$      |
|--------------|-----------|
| 2005         | 17,974.81 |
| 2006         | 18,336.38 |
| 2007         | 19,622.66 |

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

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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.

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

**1. Summary of Significant Accounting Policies (continued)**

*(d) Interest revenue and expense recognition (continued)*

Banco de Chile suspends the accrual of interest and readjustments on loans when there is a high risk of unrecoverability or from the first day in which they become overdue. Accrued interest up to the suspension date remains on Banco de Chile's assets and is considered a part of the loan balance when determining the allowance 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*

Banco de Chile and its subsidiaries protect themselves against variations in the foreign exchange market by using forward contracts, currency futures contracts, currency swaps and interest rates swaps. These activities include hedging and treasury operations and help Banco de Chile and its subsidiaries provide financial products to their clients.

Financial derivative contracts, which include foreign currency and U.F. forwards, interest rate forwards, currency and interest rate swaps, currency and interest rate options and other financial derivative instruments, are recorded in the balance sheet at cost (including transaction costs) at inception and subsequently measured at their fair value. The fair value is obtained from market quotes, discounted cash flows models and options valuation models, as and where applicable. Derivative contracts are reported as an asset when their fair value is positive and as a liability when negative under the line item *Derivative instruments*.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risk and characteristics are not closely related to those of the main contract and this contract is not recorded at its fair value with its unrealized gains and losses included in income.

At inception, a derivative contract must be designated by the Bank as a derivative instrument for investing or hedging purpose.

Changes in the fair value of derivative contracts maintained for investing purpose are included under *Gains from trading activities* or *Losses from trading activities*, as and when applicable, in the Consolidated Statement of Income.

Should a derivative instrument be classified as a hedge, it can be: (1) a hedge of the fair value of existing assets or liabilities or firm commitments, or (2) a hedge of cash flows related to existing assets or liabilities or forecasted transactions. A hedge relationship for hedge accounting purpose must comply with all of the following conditions: (a) at the inception, the hedge relationship has been formally documented; (b) it is expected that the hedge would be highly effective; (c) the effectiveness of the hedge can be measured in a reasonable manner; and (d) the hedge is highly effective with respect to the hedged risk on an ongoing basis and throughout the entire hedge relationship.

Certain derivatives transactions which do not qualify for hedge accounting are treated and reported as derivatives for investing purposes even though they provide an effective hedge on the risk of net positions.

When a derivative instrument hedges the risk of changes in the fair value of an existing asset or liability, the hedged asset or liability is recorded at its fair value with respect to the specific hedged risk. Gains or losses from fair value adjustments, both the hedged item and the derivative instrument, are recognized in income.



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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

**1. Summary of Significant Accounting Policies (continued)**

*(e) Foreign currency and derivative activities (continued)*

Should the hedged item in a fair value hedge be a firm commitment, changes in the fair value of the commitment with respect to the hedged risk are recorded as an asset or liability against net income for the year. Gains or losses from fair value adjustments of the hedging derivative are recorded in income. When an asset or liability is acquired as a result of the commitment, the initial recognition of the asset or liability acquired is adjusted to incorporate the accumulated effect of the valuation at fair value of the firm commitment which was previously recorded in the balance sheet.

When a derivative hedges the risk of changes in the cash flows of existing assets or liabilities or forecasted transactions, the effective portion of changes in the fair value related to the hedged risk is recorded in equity net of taxes. Any ineffective portion is directly recorded in income. The accumulated amounts recorded in equity are transferred to income at the moment that the hedge item affects income.

When an interest rate fair value hedge is performed on a portfolio basis and the hedged item is an amount instead of individualized assets or liabilities, gains or losses from fair value adjustments, both the hedged portfolio and the derivative instrument, are recorded in income but the fair value adjustment of the hedged portfolio is reported in the balance sheet under *Other assets* or *Other liabilities*, according to the position of the portfolio hedged at a moment in time.

*(f) Financial investments*

**Trading securities:**

Trading securities are securities acquired having the intention of generating profits as result of short-term prices fluctuation or as result of brokerage activities, or are part of a portfolio on which a short-term profit generating pattern exists.

Trading securities are stated at their fair market value as of the balance sheet date. Gains or losses from their fair market value adjustments, as well as gains or losses from trading activities, are included in *Gains (losses) from trading activities* in the Consolidated Statement of Income. Accrued interest and readjustments are reported as *Interest revenue*.

All purchases and sales of trading securities that must be delivered within the period established by market regulations or conventions are recorded using the trade date, which is the date on which the purchase or sale of the asset is committed. Any other purchase or sale is treated as a derivative (forward) until liquidation occurs.

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

**1. Summary of Significant Accounting Policies (continued)**

*(f) Financial investments (continued)*

Investments held to maturity and available for sale securities:  
Investments held to maturity include only those securities for which the Bank has the ability and intention of keep them until maturity. The remaining investments are considered as available for sale securities.

At inception, both investments are recorded at cost, including transaction costs.

Available for sale securities are subsequently measured at their fair value based on market prices or valuation models. Unrealized gains or losses as result of fair value adjustments are recorded in equity. When an available for sale securities is disposed of or impaired, the accumulated fair value adjustment recorded in equity is transferred to income and reported under the line item *Gains from trading activities* or *Losses from trading activities* when applicable.

Investments held to maturity are recorded at their cost plus accrued interest and readjustments less impairment provisions made when the carrying amount exceeds the estimated recovery amount.

Interest and readjustments of investments held to maturity and available for sale securities are included under the line item *Interest revenue*.

Investment securities which are subject to hedge accounting are adjusted according to the rules for hedge accounting.

Purchases and sales of investment securities that must be delivered within the period established by market regulations or conventions are recorded using the trade date, that is the date on which the purchase or sale of the asset is committed. Any other purchase or sale is treated as a derivative (forward) until liquidation occurs.

*(g) Transactions with repurchase and resale agreements:*

The Bank and its subsidiaries enter into security repurchase agreements as a form of borrowing. Investments that are sold subject to a repurchase obligation and that serve as collateral for borrowings are reclassified as *Trading securities*. The liability to repurchase the investment is classified as *Securities sold under agreements to repurchase*, which is valued in accordance with the agreed-upon interest rate.

The Bank and its subsidiaries also enter into resale agreements as a form of investment. Under these agreements, purchases securities, which are included as assets under the caption *Investments purchased under agreements to resell*, which are valued in accordance with the agreed-upon interest rate.

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2007)****1. Summary of Significant Accounting Policies (continued)***(h) 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.

| <b>Property, plant and equipment</b> | <b>Estimated Useful Life</b> |
|--------------------------------------|------------------------------|
| Land and buildings                   | 5-50                         |
| Furniture and fixtures               | 3-10                         |
| Machinery and equipment              | 2-10                         |
| Vehicles                             | 5                            |
| Other equipment                      | 6-8                          |

*(i) Leasing contracts*

Banco de Chile leases certain property that meets the criteria for direct financing leases. At the time of entering into a direct financing lease transaction, Banco de Chile records the aggregate of the minimum lease payment receivable less unearned income. Generally, the lessee acquires the leased asset by remitting all lease payments due. There are no significant residual values assumed by Banco de Chile. 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.

*(j) Factoring transactions*

Banco de Chile and its subsidiary Banchile Factoring S.A. carry out factoring transactions, where they receive invoices and other commercial instruments representative of credit, with or without recourse, and they advance to the assignor a percentage of the total amounts to be collected from the original debtor.

The caption *Other outstanding loans* includes MCh\$469,835 (MCh\$441,258 in 2006), corresponding to the amount advanced to the assigner plus accrued interest net of payments received.

*(k) Investments in other companies*

Shares or rights in other companies that are integral to the operations of Banco de Chile and where Banco de Chile 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.



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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

**1. Summary of Significant Accounting Policies (continued)**

*(l) Intangibles*

In accordance with instructions from the Superintendency of Banks and Financial Institutions, intangible assets are classified in *Other Assets*. Both investments in software and licenses to use trademarks are valued at price-level restated cost and amortized using the straight-line method over their useful lives. The amortization period of the investments in software cannot exceed six years.

As of December 31, 2007, intangible assets amount to MCh\$25,930 (MCh\$24,311 in 2006), corresponding to investments in software and MCh\$52 (MCh\$21 in 2006) corresponding to payments for licenses to use trademarks.

*(m) Allowance for loan losses*

The loans granted and acquired by Banco de Chile and its subsidiaries are initially recorded at cost (i.e. the original amount loaned). After this initial recording, the loans are valued at their amortized cost and disclosed net of allowances for loan losses.

In accordance with regulations of the Superintendency of Banks and Financial Institutions, Banco de Chile, its subsidiaries and foreign branches utilize models and methods, based on an individual and group analysis of the debtors, to constitute the allowances for loan losses.

*Allowances for individual evaluations*

An individual analysis of debtors is applied to individuals or companies with whom, due to size, complexity or level of exposure with the entity, Banco de Chile must be completely familiar. Likewise, it requires assigning a risk category to each debtor and its respective loans. This risk category should consider the following factors: industry or sector, partners, management and administration, financial situation, behavior and payment capacity.

One of the following categories must be assigned to each debtor and its loans after the analysis has been finalized:

- i. Categories A1, A2 and A3 correspond to debtors without significant risks, whose payment capacity will continue to be positive even if unfavorable business, economic or financial situations should arise.
- ii. Category B corresponds to debtors that present some risk, but that do not show any sign of impairment. However, these debtors might stop paying some of its obligations in the fact of foreseeable, adverse business, economic or financial situations.
- iii. Categories C1, C2, C3, C4, D1 and D2 correspond to debtors with insufficient payment capacity.



**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**1. Summary of Significant Accounting Policies (continued)***(m) Allowance for loan losses (continued)*

In order to determine allowances for loan losses classified as A1, A2, A3 and B, Banco de Chile uses percentages approved by its Board of Directors. Allowance for debtors classified as C1, C2, C3, C4, D1 and D2 were determined, in conformity with regulations in place, as follows:

| Category | Range of estimated loss | Allowance |
|----------|-------------------------|-----------|
| C1       | Up to 3%                | 2%        |
| C2       | More than 3% up to 19%  | 10%       |
| C3       | More than 19% up to 29% | 25%       |
| C4       | More than 29% up to 49% | 40%       |
| D1       | More than 49% up to 79% | 65%       |
| D2       | More than 79%           | 90%       |

**Allowances for group evaluations**

The group analysis is used to analyze a large number of operations whose individual amounts are not significant and present similar risk characteristics. For this analysis, Banco de Chile uses models based on attributes of the debtors and their loans, and on the behavior of a group of loans. In the group evaluations, the allowances are always constituted in accordance with the estimated loss using the aforementioned models.

**Additional allowances**

In conformity with regulations of the Superintendency of Banks and Financial Institutions, Banco de Chile has constituted additional allowances for its individually evaluated loan portfolio, taking into consideration the expected impairment of this portfolio. The calculation of this allowance is performed based on Banco de Chile's historical experience and considering possible future adverse macroeconomic conditions or circumstances that could affect a certain sector, industry, groups of debtors or projects.

**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.

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### Loan loss recoveries

Cash recoveries on written-off loans including loans that were reacquired from the Central Bank of Chile, recorded in memorandum accounts (see Note 19), are recorded directly to income, as a reduction of the Provision for loan losses item.

### *(n) Income taxes*

Effects of deferred income taxes are recorded in conformity with Technical Bulletin No. 60 and its related amendments, issued by the Chilean Association of Accountants.

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

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

**1. Summary of Significant Accounting Policies (continued)**

*(o) 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, 2005, 2006 and 2007 the consolidated statement of cash flows has been prepared in accordance with Technical Bulletin No.65 of the Chilean Association of Accountants.

*(p) Staff severance indemnities*

Banco de Chile 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, 2005, 2006 and 2007, the obligation has been discounted using the real interest rate of 6% per annum.

*(q) Fees and expenses related to loans and services*

Loan origination fees and expenses are considered to be adjustments to loan yield and are deferred and amortized as interest income over the term of the loan. Fees and expenses related to other financial products, including contingent loans, are generally deferred and recognized as income over the term of the products to which they relate. Fees related to financial advisory and other services are recognized on an accrual basis at the time services are provided.

*(r) Convenience translation to U.S. dollars*

Banco de Chile 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, 2007 of Ch\$495.82 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.

*(s) Translation of financial statements of Banco de Chile's foreign branches and subsidiaries*

Banco de Chile translates the accounting records of its branches in New York and Miami, USA and its subsidiary Banchile Trade Services Limited, Hong Kong to Chilean pesos from US dollars in accordance with guidelines established by the Superintendency of Banks and Financial Institutions that 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 Other equity accounts.

*(t) Reclassifications*

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For comparative purposes, certain line items of the 2006 consolidated financial statements have been reclassified.

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

**1. Summary of Significant Accounting Policies (continued)**

*(u) 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 portfolio valuation allowance. The Superintendency of Banks and Financial Institutions requires regulatory charge-offs if the asset is not sold within one year of foreclosure.

**2. Changes in Accounting Principles**

In accordance with Circular No. 3,345 issued by the Chilean Superintendency of Banks and Financial Institutions, beginning on June 30, 2006, the Bank effectively adopted the new accounting criteria for the measurement, classification and recording of trading and investment securities, derivative instruments, hedge accounting and asset derecognition.

The above mentioned Circular, required retrospective application as of December 31, 2005, recognizing the cumulative effect in equity during 2006. This resulted in a credit of MCh\$960 (in historical pesos) to a Reserves account within equity in 2006. This reserve corresponds to an remitted. profits On other hand, for the investment securities and derivatives portfolio held during 2006, the application of this new standard generated a higher income of MCh\$836, which is included in the line item Gains from trading activities .

During 2007, there have not been accounting changes that may significantly affect these consolidated financial statements.

**3. Cash and Due from Banks**

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

In accordance with guidelines established by the Superintendency of Banks, Banco de Chile 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 Banco de Chile s deposits, the amounts of its foreign borrowings and its average liabilities. These restricted cash amounts totaled MCh\$241,149 and MCh\$292,038 as of December 31, 2006 and 2007, respectively.

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**4. Financial Investments***(a) Trading Securities:*

The detail of securities classified as trading is as follows:

|   | As of December 31, |                  | Weighted Average<br>Nominal Rate as of<br>December 31, 2007<br>% |
|---|--------------------|------------------|--|
|   | 2006<br>MCh\$      | 2007<br>MCh\$    |  |
| <b>Instruments issued by the Chilean Government and the Central Bank of Chile</b> |                    |                  |  |
| Instruments issued by the Central Bank of Chile                                   | 529,211            | 302,065          | 5.71%  |
| Instruments issued by the General Treasury of the Republic                        |                    | 414              | 3.81   |
| Other government instruments  | 469                | 273              | 3.44   |
| <b>Subtotal</b>   | <b>529,680</b>     | <b>302,752</b>   | <b>5.70</b>  |
| <b>Other Financial Instruments</b>  |                    |                  |  |
| Promissory notes for deposits in Chilean banks                                    | 275,624            | 395,122          | 7.45   |
| Other foreign instruments issued  | 259,133            | 365,452          | 4.88   |
| Bonds from other Chilean companies  | 104,943            | 100,192          | 5.81   |
| Instruments issued by foreign Governments or Central Banks                        | 58,800             |                  |  |
| Mortgage bonds of Chilean banks   | 53,633             | 60,852           | 4.61   |
| Other instruments issued in Chile   | 4,165              | 4,102            | 4.11   |
| Bonds from Chilean banks  |                    | 19,009           | 6.98   |
| <b>Subtotal</b>   | <b>756,298</b>     | <b>944,729</b>   | <b>6.03</b>  |
| <b>Total</b>  | <b>1,285,978</b>   | <b>1,247,481</b> | <b>5.95%</b>   |

Instruments issued by the Chilean Government and the Central Bank of Chile include instruments sold under agreements to repurchase to customers and financial institutions, amounting to MCh\$59,955 and MCh\$48,727 as of December 31, 2006 and 2007, respectively. Other Financial Instruments include instruments sold under agreements to repurchase to customers and financial instruments, amounting to MCh\$233,943 and MCh\$190,472 as of December 31, 2006 and 2007, respectively.

*(b) Investment Securities:*

The detail of instruments classified as available for sale securities and as investments held to maturity is as follows:

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**4. Financial Investments (continued)***(b) Investment Securities (continued):**(i) Available for sale*

|  | As of December 31, |               | Weighted Average<br>Nominal Rate as of<br>December 31, 2007<br>% |
|--|--------------------|---------------|--|
|  | 2006<br>MCh\$      | 2007<br>MCh\$ |  |
| Other Financial Instruments:                               |                    |               |  |
| Instruments issued by foreign Governments or Central Banks | 43,031             |               |  |
| <b>Total</b>   | <b>43,031</b>      |               |  |

*(ii) Held to maturity*

|  | As of December 31, |               | Weighted Average<br>Nominal Rate as of<br>December 31, 2007<br>% |
|--|--------------------|---------------|--|
|  | 2006<br>MCh\$      | 2007<br>MCh\$ |  |
| Other Financial Instruments:                               |                    |               |  |
| Instruments issued by foreign Governments or Central Banks | 17,187             |               |  |
| <b>Total</b>   | <b>17,187</b>      |               |  |

As of December 31, 2006, the portfolio of available for sale securities include a net unrealized loss of MCh\$9 recorded in equity.

**5. Loans**

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

*Commercial loans* are short-term and long-term loans granted to companies or businesses, at variable or fixed interest rates in order to finance working capital or investments.

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*Consumer loans* are loans to individuals granted, principally in Chilean pesos, 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 state mortgage. These loans are financed through 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.

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**5. Loans (continued)**

*Foreign trade loans* are variable or fixed rate, short-term loans granted in foreign currencies (mainly 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 bills of exchange, other mortgage loans, which are financed by Banco de Chile's general borrowings and factoring.

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

*Contingent loans* consist of open and confirmed letters of credit together with guarantees granted by Banco de Chile in Ch\$, UF and foreign currencies (mainly 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, |       |
|---|--------------------|-------|
|   | 2006               | 2007  |
|   | %                  | %     |
| Financial services                                      | 19.93              | 18.98 |
| Residential mortgage loans                              | 17.98              | 18.67 |
| Manufacturing   | 8.30               | 8.45  |
| Commerce  | 10.25              | 9.54  |
| Agriculture, livestock, forestry, agribusiness, fishing | 5.00               | 4.66  |
| Consumer loans  | 12.50              | 11.99 |

Substantial portions of Banco de Chile's loans are to borrowers doing business in Chile.

**6. Leasing Contracts**

Banco de Chile's scheduled cash flows to be received from leasing contracts have the following maturities as of December 31, 2007:

| Maturity | As of December 31, 2007 |                    |                         |
|----------|-------------------------|--------------------|-------------------------|
|          | Total<br>Receivable     | Unearned<br>Income | Net lease<br>Receivable |

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|                                      | MCh\$          | MCh\$            | MCh\$          |
|--------------------------------------|----------------|------------------|----------------|
| Due within one year                  | 253,779        | (29,057)         | 224,722        |
| Due after 1 year but within 2 years  | 156,602        | (20,387)         | 136,215        |
| Due after 2 years but within 3 years | 100,967        | (14,031)         | 86,936         |
| Due after 3 years but within 4 years | 66,154         | (9,890)          | 56,264         |
| Due after 4 years but within 5 years | 44,749         | (7,261)          | 37,488         |
| Due after 5 years                    | 129,512        | (19,411)         | 110,101        |
| <b>Total leasing contracts</b>       | <b>751,763</b> | <b>(100,037)</b> | <b>651,726</b> |

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**6. Leasing Contracts (continued)**

Leased assets consist principally of real estate, industrial machinery, vehicle, and computer equipment. The allowance for uncollectible lease receivable was MCh\$8,036 as of December 31, 2007 (MCh\$6,692 as of December 31, 2006), 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:

|                                   | Years ended December 31, |                |                |
|-----------------------------------|--------------------------|----------------|----------------|
|                                   | 2005                     | 2006           | 2007           |
|                                   | MCh\$                    | MCh\$          | MCh\$          |
| Balance as of January 1,          | 174,701                  | 154,948        | 155,707        |
| Price-level restatement (1)       | (6,234)                  | (3,168)        | (10,746)       |
| Charge-offs                       | (73,845)                 | (65,161)       | (71,564)       |
| Provisions established            | 62,071                   | 69,634         | 87,952         |
| Provisions released               | (1,745)                  | (546)          | (209)          |
| <b>Balance as of December 31,</b> | <b>154,948</b>           | <b>155,707</b> | <b>161,140</b> |

(1) Reflects the effect of both inflation and exchange rate changes of foreign branches and Banco de Chile's subsidiary on the allowance for loan losses at the beginning of each period, adjusted to constant pesos of December 31, 2007.

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

|                              | Years ended December 31, |               |               |
|------------------------------|--------------------------|---------------|---------------|
|                              | 2005                     | 2006          | 2007          |
|                              | MCh\$                    | MCh\$         | MCh\$         |
| Provisions established       | 62,071                   | 69,634        | 87,952        |
| Provisions released          | (1,745)                  | (546)         | (209)         |
| Loan loss recoveries         | (36,171)                 | (30,179)      | (35,124)      |
| <b>Net charges to income</b> | <b>24,155</b>            | <b>38,909</b> | <b>52,619</b> |

**8. Bank Premises and Equipment**

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

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|   | As of December 31, |                |
|---|--------------------|----------------|
|   | 2006               | 2007           |
|   | MCh\$              | MCh\$          |
| Land and buildings                      | 106,484            | 103,459        |
| Machinery and equipment                 | 49,774             | 59,110         |
| Furniture                               | 3,281              | 2,822          |
| Vehicles                                | 903                | 1,014          |
| Others                                  | 2,459              | 2,759          |
| <b>Bank premises and equipment, net</b> | <b>162,901</b>     | <b>169,164</b> |

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

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**9. Investments in other companies**

As of December 31, 2005, 2006 and 2007, investments in other companies and Banco de Chile's participation in those companies' results of operations for each of the periods indicated, consist of the following:

|  | As of and for the years ended December 31, |                           |                     |                           |                     |                           | Ownership<br>Interest<br>2007<br>% |
|--|--|---------------------------|---------------------|---------------------------|---------------------|---------------------------|------------------------------------|
|  | 2005                                       |                           | 2006                |                           | 2007                |                           |                                    |
|  | Investment<br>MCh\$                        | Income<br>(Loss)<br>MCh\$ | Investment<br>MCh\$ | Income<br>(Loss)<br>MCh\$ | Investment<br>MCh\$ | Income<br>(Loss)<br>MCh\$ |                                    |
| Servipag Ltda.   | 1,350                                      | 231                       | 1,625               | 276                       | 1,962               | 337                       | 50.00                              |
| Soc. Operadora de Tarjetas de Crédito Nexus S.A.                           | 1,254                                      | 200                       | 1,309               | 254                       | 1,208               | 234                       | 25.81                              |
| Redbanc S.A.   | 1,000                                      | 153                       | 1,013               | 164                       | 1,001               | 152                       | 25.42                              |
| Transbank S.A.   | 983  | 151                       | 983                 | 151                       | 985                 | 152                       | 17.44                              |
| Bolsa de Comercio de Santiago (Stock Exchange)                             | 641  | 113                       | 675                 | 159                       | 682                 | 215                       | 4.17                               |
| Soc. Operadora Cámara Compensación de Pagos de Alto Valor S.A. (1)         | 308  | (6)                       | 370                 | 62                        | 419                 | 48                        | 11.52                              |
| Centro de Compensación Automatizado S.A. (CCA S.A.)                        | 233  | 38                        | 258                 | 43                        | 275                 | 37                        | 33.33                              |
| Artikos Chile S.A. (2)   | 129  | (201)                     | 176                 | 47                        | 231                 | 54                        | 50.00                              |
| Sociedad Interbancaria de Depósito de Valores S.A                          | 200  | 38                        | 202                 | 44                        | 215                 | 42                        | 17.60                              |
| Bolsa de Valores de Chile (Stock Exchange)                                 | 155  | 8                         | 164                 | 9                         | 171                 | 8                         | 5.00                               |
| Administrador Financiero de Transantiago S.A. (3)                          | 1,393                                      | 75                        | 1,286               | (102)                     |                     | (3,326)                   | 20.00                              |
| Empresa de Tarjetas Inteligentes S.A.(4)                                   |  | (53)                      |                     |                           |                     |                           |                                    |
| Total investments in other companies accounted for under the equity method | 7,646                                      | 747                       | 8,061               | 1,107                     | 7,149               | (2,047)                   |                                    |
| Other investments carried at cost  | 205  |                           | 201                 |                           | 208                 |                           |                                    |
| <b>Total investments in other companies</b>                                | <b>7,851</b>                               | <b>747</b>                | <b>8,262</b>        | <b>1,107</b>              | <b>7,357</b>        | <b>(2,047)</b>            |                                    |

(1) On September 23, 2004, a banking support company, Sociedad Operadora Cámara de Compensación de Pagos de Alto Valor S.A., was formed. This company's objective is to provide check clearing services among its members. Banco de Chile subscribed and fully paid MCh\$292 (in historical pesos) for this company's capital, which gives it a participation of 18.16%. As December 31, 2005 Banco de Chile's participation decreased to 11.66% as result of payment of shares subscribed by other that were not paid as of December 31, 2004. On January 5, 2006, Banco de Chile decreased its participation to 11.52% as a result of not concurrence to a capital increase in Sociedad Operadora Cámara Compensación de Pagos de Alto Valor S.A.

(2) On June 2, 2005, as agreed by the Board of Directors of Banco de Chile at meeting No. 2,599, held on May 12, 2005, Banco de Chile subscribed and paid MCh\$250 (in historical pesos) for a capital increase at Artikos Chile S.A.

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- (3) On June 8, 2005, as agreed by the Board of Directors of Banco de Chile at meeting No. 2,599, held on May 12, 2005, Banco de Chile subscribed and paid 200,000 shares, for a value of MCh\$1,352 (in historical pesos), for this company's capital, for the formation of an Banking Support Company to the line of business called Administrador Financiero de Transantiago S.A. .
- During December 2007, by agreement of the Extraordinary Shareholders Meeting of Administrdor Financiero de Transantiago S.A. the extraordinary contributions made by the partners were capitalized, whereby Banco de Chile capitalized MCh\$2,040 (historical).
- (4) On March 28, 2005, the Extraordinary Shareholders Meeting of Empresa de Tarjetas Inteligentes S.A. agreed to dissolve the company.

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**10. Other Assets and Other Liabilities***(a) Other assets*

|   | As of December 31, |                |
|---|--------------------|----------------|
|   | 2006               | 2007           |
|   | MCh\$              | MCh\$          |
| Mutual funds  | 106,873            | 164,385        |
| Amounts receivable under spot foreign exchange transaction      | 154,069            | 82,532         |
| Credit card charges in process                                  | 68,120             | 78,396         |
| Notes receivable  | 7,088              | 48,686         |
| Deferred income tax assets                                      | 58,520             | 45,034         |
| Payments from counterparties to be settled                      | 39,487             | 44,115         |
| Assets held for leasing   | 43,190             | 37,917         |
| Intangibles (software and licenses for trademark use)           | 24,332             | 25,982         |
| Deferred fees   | 15,272             | 17,105         |
| Imports on their own account                                    | 1,987              | 15,693         |
| Transactions in process   | 8,928              | 10,321         |
| Assets to be securitized  | 5,220              | 6,331          |
| VAT fiscal credit   | 6,476              | 5,764          |
| Accounts receivable for assets received in lieu of payment sold | 2,480              | 3,009          |
| Recoverable taxes   | 5,280              | 1,849          |
| Prepaid expenses  | 1,992              | 1,804          |
| Additional consideration paid in the purchase of mortgage bonds | 1,235              | 1,042          |
| Materials and supplies  | 687                | 638            |
| Other   | 17,367             | 24,178         |
| <b>Total other assets</b>                                       | <b>568,603</b>     | <b>614,781</b> |

*(b) Other liabilities*

|   | As of December 31, |         |
|---|--------------------|---------|
|   | 2006               | 2007    |
|   | MCh\$              | MCh\$   |
| Accounts payable  | 167,706            | 110,454 |
| Amounts payable under spot foreign exchange transaction | 109,226            | 60,418  |
| Notes payable   | 5,219              | 22,024  |
| Deferred tax liabilities                                | 22,285             | 14,625  |
| Accrued staff vacation expense                          | 13,138             | 13,622  |
| Transactions in process                                 | 8,465              | 11,716  |
| Payments to counterparties to be settled                | 47,905             | 10,451  |
| Unearned interest on leasing transactions               | 6,942              | 6,924   |

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|  |                |                |
|--|----------------|----------------|
| Administration and credit card contract provision                | 5,907          | 6,727          |
| Provision for staff severance indemnities and personnel expenses | 6,912          | 6,705          |
| VAT payable  | 6,370          | 6,617          |
| Allowance of income taxes, net                                   |                | 5,685          |
| Deferred fees  | 4,048          | 3,130          |
| Legal contingencies provision                                    | 1,489          | 1,019          |
| Other  | 7,358          | 3,734          |
| <b>Total other liabilities</b>                                   | <b>412,970</b> | <b>283,851</b> |

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**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 Banco de Chile in Chilean pesos, UF and foreign currencies (principally U.S. dollars). The liability represents Banco de Chile's obligations under such agreements. Banco de Chile's rights under these agreements are recognized as assets on Banco de Chile's balance sheets under the caption "Contingent loans". (See note 5).

**11. Other Interest Bearing Liabilities**

Banco de Chile's long-term and short-term borrowings are summarized below. In accordance with the guidelines established by the Superintendency of Banks, Banco de Chile 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. None of the following financial liabilities are collateralized, except for investment sold under agreement to repurchase, nor are subject to covenants.

|  | As of December 31, 2006 |                     |                  | As of December 31, 2007 |                     |                  |
|--|-------------------------|---------------------|------------------|-------------------------|---------------------|------------------|
|  | Long-term<br>MCh\$      | Short-term<br>MCh\$ | Total<br>MCh\$   | Long-term<br>MCh\$      | Short-term<br>MCh\$ | Total<br>MCh\$   |
| Central Bank Credit lines for renegotiation of loans | 885                     |                     | 885              | 513                     |                     | 513              |
| Mortgage finance bonds                               | 512,982                 |                     | 512,982          | 397,333                 |                     | 397,333          |
| Bonds  | 595,288                 |                     | 595,288          | 772,801                 |                     | 772,801          |
| Subordinated bonds                                   | 435,982                 |                     | 435,982          | 446,395                 |                     | 446,395          |
| Borrowings from domestic financial institutions      |                         | 94,792              | 94,792           |                         | 73,947              | 73,947           |
| Foreign borrowings                                   | 342,792                 | 292,557             | 635,349          | 628,887                 | 153,981             | 782,868          |
| Investments sold under agreements to repurchase      |                         | 329,563             | 329,563          |                         | 301,979             | 301,979          |
| Other obligations                                    | 3,059                   | 25,329              | 28,388           | 4,870                   | 53,620              | 58,490           |
| <b>Total other interest bearing liabilities</b>      | <b>1,890,988</b>        | <b>742,241</b>      | <b>2,633,229</b> | <b>2,250,799</b>        | <b>583,527</b>      | <b>2,834,326</b> |

*(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 3.70%. The maturities of the outstanding amounts are as follows:

As of  
December 31,

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|  | 2007<br>MCh\$ |
|--|---------------|
| Due within 1 year  | 513           |
| 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  |               |
| <b>Total long-term (Credit lines for renegotiation of loans)</b> | <b>513</b>    |
| <b>Total short-term (Other Central Bank borrowings)</b>          |               |
| <b>Total Central Bank borrowings</b>                             | <b>513</b>    |

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**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 4.04% as of December 31, 2007.

The maturities of outstanding mortgage bond amounts as of December 31, 2007 are as follows:

|                                      | As of<br>December 31,<br>2007<br>MCh\$ |
|--------------------------------------|--|
| Due within 1 year                    | 59,948                                 |
| Due after 1 year but within 2 years  | 44,876                                 |
| Due after 2 years but within 3 years | 43,623                                 |
| Due after 3 years but within 4 years | 41,335                                 |
| Due after 4 years but within 5 years | 37,839                                 |
| Due after 5 years                    | 169,712                                |
| <b>Total mortgage finance bonds</b>  | <b>Ch\$ 397,333</b>                    |

*(c) Bonds*

The maturities of outstanding bond amounts as of December 31, 2007 are as follows:

|                                      | As of<br>December 31,<br>2007<br>MCh\$ |
|--------------------------------------|--|
| Due within 1 year                    | 23,580                                 |
| Due after 1 year but within 2 years  | 146,400                                |
| Due after 2 years but within 3 years | 163,066                                |
| Due after 3 years but within 4 years | 111,193                                |
| Due after 4 years but within 5 years | 92,111                                 |
| Due after 5 years                    | 236,451                                |

**Total bonds****772,801**

Bonds are linked to the UF Index and carried an average real annual interest rate of 3.50% as of December 31, 2007, 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.

In the period between March and November 2007, Banco de Chile carried out a common bond issuance in unidades de fomento divided into series S , U and W . The common bonds issued in series S and U , for a total amount of MCh\$113,730 (historical), have a 10-year maturity term and interest rates of 3.2% and 3.7%, respectively. Series W common bonds were issued for an amount of MCh\$77,514 (historical) with a maturity term of 5 years and a 3.1% interest rate.

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**11. Other Interest Bearing Liabilities (continued)***(d) Subordinated bonds*

Our currently outstanding subordinated bonds are linked to the UF index with interest and principal payments due semi-annually. The discount on the issuance of the currently outstanding subordinated bonds is amortized over the life of the bond. As of December 31, 2007, the effective real interest rate was 6.27% taking into consideration the discount on issuance.

The bonds are intended to finance loans having a maturity greater than one year. As of December 31, 2007 the outstanding maturities of the bonds, which are considered long-term, are as follows:

|                                      | As of<br>December 31,<br>2007<br>MCh\$ |
|--------------------------------------|--|
| Due within 1 year                    | 31,924                                 |
| Due after 1 year but within 2 years  | 21,797                                 |
| Due after 2 years but within 3 years | 23,702                                 |
| Due after 3 years but within 4 years | 26,688                                 |
| Due after 4 years but within 5 years | 26,689                                 |
| Due after 5 years                    | 315,595                                |
| <b>Total subordinated bonds</b>      | <b>446,395</b>                         |

During April 2007, Banco de Chile issued subordinate bonds with a 24-year maturity term. The subordinate bonds were issued in unidades de fomento and its proceeds amounted to MCh\$36,919 (historical), accruing annual interest at a rate of 4.5%.

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

*(e) Borrowings from domestic financial institutions*

Borrowings from domestic financial institutions are used to fund Banco de Chile's general activities, carry a weighted average annual real interest rate of 4.91% and have the following outstanding maturities as of December 31, 2007.

|                   | As of<br>December 31,<br>2007<br>MCh\$ |
|-------------------|--|
| Due within 1 year |  |

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|  |               |
|--|---------------|
| 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  |               |
| <b>Total long-term</b>                                       |               |
| <b>Total short-term</b>                                      | <b>73,947</b> |
| <b>Total borrowings from domestic financial institutions</b> | <b>73,947</b> |

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

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**11. Other Interest Bearing Liabilities (continued)***(f) Foreign borrowings*

Banco de Chile has short-term and long-term borrowings from foreign banks. The outstanding maturities of these borrowings as of December 31, 2007 are as follows:

|                                      | As of<br>December 31,<br>2007<br>MCh\$ |
|--------------------------------------|--|
| Due within 1 year                    | 611,320                                |
| Due after 1 year but within 2 years  | 9,005                                  |
| Due after 2 years but within 3 years | 8,562                                  |
| Due after 3 years but within 4 years |  |
| Due after 4 years but within 5 years |  |
| Due after 5 years                    |  |
| <b>Total long-term</b>               | <b>628,887</b>                         |
| <b>Total short-term</b>              | <b>153,981</b>                         |
| <b>Total foreign borrowings</b>      | <b>782,868</b>                         |

Each of these loans is denominated in foreign currency and is principally used to fund our foreign trade loans and carry an average annual nominal interest rate of 1,9% as of December 31, 2007.

*(g) Other obligations*

|  | As of<br>December 31,<br>2006<br>MCh\$ | 2007<br>MCh\$ |
|--|--|---------------|
| Other long-term obligations:             |  |               |
| Obligations with Chilean government      | 3,059                                  | 4,870         |
| <b>Total other long-term obligations</b> | <b>3,059</b>                           | <b>4,870</b>  |
| Other short-term obligations             | 25,329                                 | 53,620        |
| <b>Total other obligations</b>           | <b>28,388</b>                          | <b>58,490</b> |

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As of December 31, 2007, other obligations had the following maturities:

|                                      | As of<br>December 31,<br>2007<br>MCh\$ |
|--------------------------------------|--|
| Due within 1 year                    | 500                                    |
| Due after 1 year but within 2 years  | 746                                    |
| Due after 2 years but within 3 years | 857                                    |
| Due after 3 years but within 4 years | 737                                    |
| Due after 4 years but within 5 years | 616                                    |
| Due after 5 years                    | 1,414                                  |
| <b>Total long-term</b>               | <b>4,870</b>                           |
| <b>Total short-term</b>              | <b>53,620</b>                          |
| <b>Total other obligations</b>       | <b>58,490</b>                          |

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(Restated for general price - level changes and expressed in millions of constant

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**12. Obligations Arising From Lease Commitments**

Banco de Chile 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, 2007.

|   | As of<br>December 31,<br>2007<br>MCh\$ |
|---|--|
| Due within 1 year                                       | 8,725                                  |
| Due after 1 year but within 2 years                     | 7,248                                  |
| Due after 2 years but within 3 years                    | 6,136                                  |
| Due after 3 years but within 4 years                    | 4,144                                  |
| Due after 4 years but within 5 years                    | 2,644                                  |
| Due after 5 years                                       | 8,810                                  |
| <b>Total obligations arising from lease commitments</b> | <b>37,707</b>                          |

The rental expense on the premises was MCh\$9,160, MCh\$10,847 and MCh\$11,362 for the years ended December 31, 2005, 2006 and 2007, respectively, and is included in the Consolidated Statements of Income under Administrative and other expenses .

**13. Derivative Instruments**

(a) The Bank uses derivative instruments for investing and hedging purposes

|  | Notional amount of contract with final expiration date in |           |                                    |           |             |         | Fair value |        |             |        |
|--|---|-----------|------------------------------------|-----------|-------------|---------|------------|--------|-------------|--------|
|  | Less than 3 months  |           | Over 3 months/<br>Less than 1 year |           | Over 1 year |         | Assets     |        | Liabilities |        |
|  | 2006  | 2007      | 2006                               | 2007      | 2006        | 2007    | 2006       | 2007   | 2006        | 2007   |
|  | MCh\$   | MCh\$     | MCh\$                              | MCh\$     | MCh\$       | MCh\$   | MCh\$      | MCh\$  | MCh\$       | MCh\$  |
| <b>Derivatives held for hedging purposes</b>   |   |           |                                    |           |             |         |            |        |             |        |
| Interest rate swaps                            |   |           |                                    |           | 114,796     | 99,164  | 3,542      | 4,923  |             |        |
| Total derivatives held for hedging purposes    |   |           |                                    |           | 114,796     | 99,164  | 3,542      | 4,923  |             |        |
| <b>Derivatives held for investing purposes</b> |   |           |                                    |           |             |         |            |        |             |        |
| Currency forwards                              | 1,445,354   | 3,239,341 | 1,951,301                          | 1,742,170 | 528,983     | 191,445 | 24,185     | 38,068 | 31,372      | 63,716 |
| Interest rate swaps                            |   | 23,736    |                                    | 86,208    | 875,316     | 647,970 | 4,664      | 3,847  | 3,749       | 4,566  |

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|  |                  |                  |                  |                  |                  |                  |               |               |               |                |
|--|------------------|------------------|------------------|------------------|------------------|------------------|---------------|---------------|---------------|----------------|
| Currency and rate swaps                              | 9,916            | 25,764           | 100,664          | 129,145          | 79,331           | 21,389           | 34,060        | 39,422        | 51,694        |                |
| Call options   | 14,742           |                  | 8,017            |                  |                  |                  | 91            |               | 73            |                |
| Rate call options                                    |                  | 4,477            |                  | 728,851          | 591,816          | 458              |               | 589           | 113           |                |
| Currency put options                                 | 3,822            |                  |                  |                  |                  |                  | 123           |               |               |                |
| <b>Total derivatives held for investing purposes</b> | <b>1,445,354</b> | <b>3,291,557</b> | <b>1,981,542</b> | <b>1,937,059</b> | <b>2,262,295</b> | <b>1,510,562</b> | <b>50,696</b> | <b>76,189</b> | <b>75,132</b> | <b>120,162</b> |
| <b>Total derivative instruments</b>                  | <b>1,445,354</b> | <b>3,291,557</b> | <b>1,981,542</b> | <b>1,937,059</b> | <b>2,377,091</b> | <b>1,609,726</b> | <b>54,238</b> | <b>81,112</b> | <b>75,132</b> | <b>120,162</b> |

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**13. Derivative Financial Instruments (continued)***(b) 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 and hedging purposes as of December 31, 2006 and 2007.

|  | Fair values as of<br>December 31, |          |
|--|-----------------------------------|----------|
|  | 2006                              | 2007     |
|  | MCh\$                             | MCh\$    |
| Contract to purchase and sell foreign exchange | (7,187)                           | (25,648) |
| Currency and interest rate swaps and options   | (13,707)                          | (13,402) |

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.

**14. Minimum Regulatory 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\$15,698 as of December 31, 2007. 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.

Banco the Chile's actual qualifying net capital base and effective equity used to support its risk-weighted assets as of December 31, 2007, are set forth in the following table:

|   | As of<br>December 31,<br>2007<br>MCh\$ |
|---|--|
| <b>Basic Capital</b>  | 809,105                                |
| 3% of total assets net of provisions                                    | (441,346)                              |
| Excess over minimum required equity                                     | 367,759                                |
| Net capital base as a percentage of the total assets, net of provisions | 5.50%                                  |
| <b>Effective equity</b>   | 1,233,370                              |

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|  |           |
|--|-----------|
| 8% of risk-weighted assets                                       | (922,943) |
| Excess over minimum required equity                              | 310,427   |
| Effective equity as a percentage of the risk-weighted assets (*) | 10.69%    |

(\*) 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, of the Superintendency of Banks.

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**15. Shareholders Equity***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 2005, 2006 and 2007 in constant Chilean pesos of December 31, 2007 are as follows:

|   | Paid during the year ended<br>December 31, |         |         |
|---|--|---------|---------|
|   | 2005                                       | 2006    | 2007    |
|   | MCh\$                                      | MCh\$   | MCh\$   |
| Dividends relating to prior year net income | 167,359                                    | 160,810 | 161,411 |

**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 Banco de Chile's shares.

Entities in which a director, officer or shareholder of Banco de Chile holds more than a 5% interest as well as entities that have directors in common with Banco de Chile 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:

|                      | 2005           |                  | As of December 31,<br>2006 |                  | 2007           |                  |
|----------------------|----------------|------------------|----------------------------|------------------|----------------|------------------|
|                      | Collateral     |                  | Collateral                 |                  | Collateral     |                  |
|                      | Loans<br>MCh\$ | Pledged<br>MCh\$ | Loans<br>MCh\$             | Pledged<br>MCh\$ | Loans<br>MCh\$ | Pledged<br>MCh\$ |
| Operating companies  | 121,721        | 53,043           | 155,449                    | 74,704           | 174,366        | 52,741           |
| Investment companies | 9,050          | 136              | 11,668                     | 130              | 34,673         | 12               |
| Individuals (1)      | 4,023          | 3,400            | 4,130                      | 3,862            | 4,268          | 3,959            |
| <b>Total</b>         | <b>134,794</b> | <b>56,579</b>    | <b>171,247</b>             | <b>78,696</b>    | <b>213,307</b> | <b>56,712</b>    |

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(1) Includes only debt obligations that are equal to or greater than UF3,000, equivalent to approximately MCh\$59 as of December 31, 2007. The activity in the balances of loans to related parties are as follows:

|                                   | <b>2006</b>    | <b>2007</b>    |
|-----------------------------------|----------------|----------------|
|                                   | <b>MCh\$</b>   | <b>MCh\$</b>   |
| Balance as of January 1,          | 134,794        | 171,247        |
| New loans                         | 79,726         | 111,052        |
| Repayments                        | (40,499)       | (57,193)       |
| Price-level restatement (1)       | (2,774)        | (11,799)       |
| <b>Balance as of December 31,</b> | <b>171,247</b> | <b>213,307</b> |

(1) Reflects the effect of restatement of beginning balances to constant pesos of December 31, 2007.

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**16. Transactions with Related Parties (continued)***(b) Other transactions with related parties*

During the years ended December 31, 2005, 2006 and 2007, Banco de Chile 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\$98 as of December 31, 2007.

|  | Years ended December 31, |                  |                  |                  |                  |                  |
|--|--------------------------|------------------|------------------|------------------|------------------|------------------|
|  | 2005                     |                  | 2006             |                  | 2007             |                  |
|  | Expense<br>MCh\$         | Revenue<br>MCh\$ | Expense<br>MCh\$ | Revenue<br>MCh\$ | Expense<br>MCh\$ | Revenue<br>MCh\$ |
| Empresa Nacional de Telecomunicaciones S.A.            | 2,458                    |                  | 3,593            |                  | 4,254            |                  |
| Redbanc S.A.   | 3,800                    |                  | 4,157            |                  | 3,830            |                  |
| Operadora de Tarjetas de Crédito Nexus S.A.            | 2,819                    |                  | 3,378            |                  | 3,662            |                  |
| Entel Telefonía Local S.A.                             | 857                      |                  | 1,862            |                  | 1,899            |                  |
| Entel PCS Telecomunicaciones S.A.                      | 242                      |                  | 497              |                  | 576              |                  |
| Depósito Central de Valores, Depósitos de Valores S.A. | 449                      |                  | 473              |                  | 536              |                  |
| Bolsa de Comercio de Santiago Bolsa de Valores         | 227                      |                  | 325              |                  | 372              |                  |
| Banchile Cía de Seguros de Vida S.A.                   | 282                      |                  | 331              |                  | 353              |                  |
| Plaza Oeste S.A.                                       | 264                      |                  | 299              |                  | 353              |                  |
| Soc. Operadora de la Cámara Com. Pagos Alto Valor S.A. | 41                       |                  | 379              |                  | 311              |                  |
| Parque Arauco S.A.                                     |                          |                  |                  |                  | 307              |                  |
| Artikos S.A.   | 130                      |                  | 219              |                  | 211              |                  |
| Empresa periodística La Tercera S.A.                   |                          |                  |                  |                  | 209              |                  |
| Sonda S.A.   | 656                      |                  | 932              |                  | 175              |                  |
| Asociación de Bancos e Instituciones Financieras       | 116                      |                  | 146              |                  | 161              |                  |
| Plaza Antofagasta S.A.                                 |                          |                  | 46               |                  | 146              |                  |
| Plaza El Trébol S.A.                                   | 60                       |                  | 103              |                  | 127              |                  |
| Línea Aérea Nacional Chile S.A.                        |                          | 122              |                  | 124              |                  | 125              |
| <b>Subtotal</b>  | <b>12,401</b>            | <b>122</b>       | <b>16,740</b>    | <b>124</b>       | <b>17,482</b>    | <b>125</b>       |
| <b>Transactions between 1,000 and 5,000 UF:</b>        |                          |                  |                  |                  |                  |                  |
| Services expenses                                      | 159                      |                  | 292              |                  | 346              |                  |
| Rental income.   | 137                      |                  | 116              |                  | 163              |                  |
| <b>Subtotal</b>  | <b>296</b>               |                  | <b>408</b>       |                  | <b>509</b>       |                  |
| <b>Total</b>   | <b>12,697</b>            | <b>122</b>       | <b>17,148</b>    | <b>124</b>       | <b>17,991</b>    | <b>125</b>       |

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

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

Banco de Chile's fees and income from services and non-operating income and expenses for the years ended December 31, 2005, 2006 and 2007 are summarized as follows:

|   | Years ended December 31, |                 |                |                 |                |                 |
|---|--------------------------|-----------------|----------------|-----------------|----------------|-----------------|
|   | 2005                     |                 | 2006           |                 | 2007           |                 |
|   | Income                   | Expenses        | Income         | Expenses        | Income         | Expenses        |
|   | MCh\$                    | MCh\$           | MCh\$          | MCh\$           | MCh\$          | MCh\$           |
| <b>Fees and income from services</b>                                  |                          |                 |                |                 |                |                 |
| Mutual funds management   | 27,931                   | (2,507)         | 29,328         | (2,514)         | 38,692         | (3,730)         |
| Insurance   | 22,102                   | (172)           | 26,237         | (216)           | 29,984         | (267)           |
| Sight accounts and ATMs   | 24,568                   | (10,198)        | 26,411         | (10,856)        | 28,849         | (10,463)        |
| Checking accounts and overdrafts                                      | 26,003                   |                 | 25,854         |                 | 26,963         |                 |
| Credit cards  | 19,247                   | (6,744)         | 23,016         | (8,449)         | 24,214         | (9,200)         |
| Stock brokerage   | 16,591                   | (34)            | 11,950         | (672)           | 16,388         | (564)           |
| Cash management services  | 10,520                   | (252)           | 11,670         | (101)           | 11,431         | (62)            |
| Collection of over-due loans  | 9,492                    |                 | 10,614         |                 | 10,955         |                 |
| Credit lines  | 7,974                    |                 | 8,676          |                 | 7,580          |                 |
| Credits   | 10,487                   |                 | 4,905          |                 | 5,668          |                 |
| Foreign trade and currency exchange                                   | 3,659                    |                 | 4,304          |                 | 3,940          |                 |
| Letters of credit, guarantees, collaterals and other contingent loans | 5,207                    |                 | 4,123          |                 | 3,596          |                 |
| Custody and trust services  | 1,932                    |                 | 2,230          |                 | 2,371          |                 |
| Collection services   | 2,771                    |                 | 2,088          |                 | 1,880          |                 |
| Income and revenue from assets received in lieu of payment            | 5,562                    | (1,703)         | 4,016          | (1,513)         | 1,407          | (1,145)         |
| Financial advisory services   | 1,012                    |                 | 3,054          |                 | 1,211          |                 |
| Factoring   | 678                      | (9)             | 933            | (7)             | 1,040          | (5)             |
| Leasing   | 1,743                    | (336)           | 1,576          | (214)           | 460            | (252)           |
| Fees from sales force   |                          | (16,465)        |                | (23,900)        |                | (16,738)        |
| Teller services (Servipag)  |                          | (4,343)         |                | (4,947)         |                | (5,273)         |
| Cobranding  |                          | (6,379)         |                | (7,493)         |                | (6,694)         |
| Others  | 4,087                    | (1,874)         | 5,859          | (2,431)         | 8,146          | (1,892)         |
| <b>Total</b>  | <b>201,566</b>           | <b>(51,016)</b> | <b>206,844</b> | <b>(63,313)</b> | <b>224,775</b> | <b>(56,285)</b> |
| <b>Non-operating income and expenses</b>                              |                          |                 |                |                 |                |                 |
| Gains on sales of assets received in lieu of payment                  | 4,809                    |                 | 10,248         |                 | 13,722         |                 |
| Rental income   | 2,580                    |                 | 2,573          |                 | 2,542          |                 |
| Indemnity of sinesters  | 5                        |                 |                |                 | 510            |                 |
| Income from sale of fixed assets                                      | 134                      |                 | 77             |                 | 468            |                 |
| Recoveries of expenses  | 323                      |                 | 277            |                 | 411            |                 |
| Prior year tax differences  |                          |                 | 3,591          |                 | 72             |                 |

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|  |              |                 |               |                 |                        |
|--|--------------|-----------------|---------------|-----------------|------------------------|
| Dividends received                                       | 100          |                 | 59            |                 | 45                     |
| Foreign trade income                                     | 144          |                 | 56            |                 | 31                     |
| Leasing income   | 61           |                 | 6             |                 | 10                     |
| Gains from sale of shares                                |              |                 | 480           |                 |                        |
| Charge-offs assets received in lieu of payment           |              | (11,871)        |               | (11,237)        | (10,987)               |
| Charge-offs  |              | (1,408)         |               | (1,461)         | (2,163)                |
| Write-offs for frauds                                    |              | (598)           |               | (599)           | (237)                  |
| Legal contingencies provision                            |              | (21)            |               | (577)           | (40)                   |
| Expenses on charge-offs for leasing                      |              | (394)           |               | (214)           | (1)                    |
| Advertising expenses                                     |              | (68)            |               | (76)            | (28)                   |
| Charge-offs and provisions related to fixed assets       |              | (27)            |               | (19)            | (51)                   |
| Provision for recovered leased assets                    |              | (1,164)         |               | (16)            | (163)                  |
| Reversal of adjustments and interest from previous years |              | (53)            |               | (216)           | (64)                   |
| Other  | 463          | (592)           | 431           | (403)           | 833 (1,283)            |
| <b>Total</b>   | <b>8,619</b> | <b>(16,196)</b> | <b>17,798</b> | <b>(14,818)</b> | <b>18,644 (15,017)</b> |

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(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**18. Board of Directors Compensation**

As agreed at the Shareholders Meeting, during 2006 and 2007 Banco de Chile and its subsidiaries have paid, and charged to income, the following compensation to their Directors:

| Name of Director                   | Remunerations |            | Fees for attending Board meetings |            | Fees for attending Committees and Subsidiary Board meetings (1) |              | Consulting |           | Total        |              |
|------------------------------------|---------------|------------|-----------------------------------|------------|---|--------------|------------|-----------|--------------|--------------|
|                                    | 2006          | 2007       | 2006                              | 2007       | 2006  | 2007         | 2006       | 2007      | 2006         | 2007         |
|                                    | MCh\$         | MCh\$      | MCh\$                             | MCh\$      | MCh\$   | MCh\$        | MCh\$      | MCh\$     | MCh\$        | MCh\$        |
| Pablo Granifo Lavín                |               | 294        |                                   | 33         |   | 197          |            |           |              | 524          |
| Andrónico Luksic Craig             | 140           | 136        | 9                                 | 12         |   |              |            |           | 149          | 148          |
| Jorge Awad Mehech                  | 47            | 45         | 23                                | 22         | 89  | 73           |            |           | 159          | 140          |
| Hernán Büchi Buc                   |               | 34         |                                   | 15         |   | 31           |            |           |              | 80           |
| Jacob Ergas Ergas                  | 47            | 45         | 16                                | 16         | 61  | 60           |            |           | 124          | 121          |
| Jaime Estévez Valencia             |               | 34         |                                   | 17         |   | 49           |            |           |              | 100          |
| Guillermo Luksic Craig             | 47            | 45         | 10                                | 7          |   |              |            |           | 57           | 52           |
| Rodrigo Manubens Moltedo           | 47            | 45         | 20                                | 22         | 99  | 103          | 9          | 45        | 175          | 215          |
| Gonzalo Menéndez Duque             | 47            | 45         | 23                                | 23         | 127   | 123          |            |           | 197          | 191          |
| Francisco Pérez Mackenna           | 47            | 45         | 20                                | 21         | 58  | 61           |            |           | 125          | 127          |
| Fernando Cañas Berkowitz           | 338           | 33         | 45                                | 9          | 252   | 95           |            |           | 635          | 137          |
| Thomas Fürst Freiwirth             | 47            | 45         | 21                                | 21         | 72  | 63           |            |           | 140          | 129          |
| Jorge Ergas Heymann                | 47            | 45         | 21                                | 16         | 41  | 39           |            |           | 109          | 100          |
| Jorge Díaz Vial                    | 39            | 66         | 19                                | 10         | 37  | 22           |            | 1         | 95           | 99           |
| Segismundo Schulín-Zeuthen Serrano | 47            | 11         | 20                                | 5          | 43  | 11           | 70         | 12        | 180          | 39           |
| Máximo Pacheco Matte               | 47            | 11         | 19                                | 3          | 3   |              |            |           | 69           | 14           |
| Edmundo Eluchans Urenda            | 8             |            | 3                                 |            | 4   |              |            |           | 15           |              |
| Other subsidiaries directors       |               |            |                                   |            | 124   | 84           |            |           | 124          | 84           |
| <b>Total</b>                       | <b>995</b>    | <b>979</b> | <b>269</b>                        | <b>252</b> | <b>1,010</b>  | <b>1,011</b> | <b>79</b>  | <b>58</b> | <b>2,353</b> | <b>2,300</b> |

(1) Includes fees paid to members of the advisory committee of Banchile Corredores de Seguros Ltda..

**19. Loan Loss Recoveries**

|                                       | Years ended December 31, |        |        |
|---------------------------------------|--------------------------|--------|--------|
|                                       | 2005                     | 2006   | 2007   |
|                                       | MCh\$                    | MCh\$  | MCh\$  |
| Loan portfolio previously charged-off | 35,629                   | 30,139 | 34,738 |

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|                                    |               |               |               |
|------------------------------------|---------------|---------------|---------------|
| Loans reacquired from Central Bank | 542           | 40            | 386           |
| <b>Total</b>                       | <b>36,171</b> | <b>30,179</b> | <b>35,124</b> |

Recovery of loans re-acquired 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, are recorded directly to income, as a reduction of the Provision for loan losses item.

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**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, 2006 and 2007 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, 2006                    |   |                  | As of December 31, 2007                    |   |                  |
|---|--|---|------------------|--|---|------------------|
|   | Payable in<br>Foreign<br>Currency<br>MCh\$ | Payable in<br>Chilean<br>Pesos<br>MCh\$ | Total<br>MCh\$   | Payable in<br>Foreign<br>Currency<br>MCh\$ | Payable in<br>Chilean<br>Pesos<br>MCh\$ | Total<br>MCh\$   |
| <b>ASSETS</b>                                   |  |   |                  |  |   |                  |
| Cash and due from banks                         | 881,724                                    |   | 881,724          | 112,699                                    |   | 112,699          |
| Loans   | 956,719                                    | 11,482                                  | 968,201          | 1,070,776                                  | 1,229                                   | 1,072,005        |
| Contingent loans                                | 437,693                                    |   | 437,693          | 466,862                                    |   | 466,862          |
| Trading securities                              | 404,047                                    | 9,959                                   | 414,006          | 483,010                                    | 62                                      | 483,072          |
| Held to maturity and available for sale         | 60,218                                     |   | 60,218           |  |   |                  |
| Leasing contracts                               |  | 56,056                                  | 56,056           |  | 80,529                                  | 80,529           |
| Other assets                                    | 107,454                                    |   | 107,454          | 429,152                                    |   | 429,152          |
| <b>Total assets</b>                             | <b>2,847,855</b>                           | <b>77,497</b>                           | <b>2,925,352</b> | <b>2,562,499</b>                           | <b>81,820</b>                           | <b>2,644,319</b> |
| <b>LIABILITIES</b>                              |  |   |                  |  |   |                  |
| Deposits  | 1,252,154                                  | 224                                     | 1,252,378        | 1,078,386                                  | 34                                      | 1,078,420        |
| Contingent liabilities                          | 439,565                                    |   | 439,565          | 466,566                                    |   | 466,566          |
| Borrowings from domestic financial institutions | 134,646                                    |   | 134,646          | 93,982                                     |   | 93,982           |
| Foreign borrowings                              | 635,274                                    |   | 635,274          | 782,834                                    |   | 782,834          |
| Other liabilities                               | 445,054                                    | 258                                     | 445,312          | 220,010                                    | 191                                     | 220,201          |
| <b>Total liabilities</b>                        | <b>2,906,693</b>                           | <b>482</b>                              | <b>2,907,175</b> | <b>2,641,778</b>                           | <b>225</b>                              | <b>2,642,003</b> |
| <b>NET (LIABILITIES) ASSETS</b>                 | <b>(58,838)</b>                            | <b>77,015</b>                           | <b>18,177</b>    | <b>(79,279)</b>                            | <b>81,595</b>                           | <b>2,316</b>     |

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(Restated for general price - level changes and expressed in millions of constant

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**21. Income Taxes**

Banco de Chile and its subsidiaries have recorded in the Financial Statements the effects of deferred taxes and amortization of its complementary accounts, as provided by the Chilean Association of Accountants. The movements and effects from deferred taxes are shown on the following table:

|  | Balance as of<br>December 31,<br>2006 (1)<br>MCh\$ | 2007<br>Deferred taxes<br>MCh\$ | Balance as of<br>December 31,<br>2007<br>MCh\$ |
|--|--|---------------------------------|--|
| <b>Deferred tax assets</b>                               |  |                                 |  |
| Allowances for loan losses                               | 25,841   | (3,546)                         | 22,295   |
| Obligations with repurchase agreements                   | 8,921  | (4,325)                         | 4,596  |
| Leasing equipment  | 3,344  | (452)                           | 2,892  |
| Assets at market value                                   | 839  | (761)                           | 78   |
| Personnel provisions                                     | 2,336  | (149)                           | 2,187  |
| Staff vacations  | 2,026  | 220                             | 2,246  |
| Accruals interest and readjustments from past due loans  | 1,462  | 114                             | 1,576  |
| Staff severance indemnities                              | 959  | 135                             | 1,094  |
| Other adjustments  | 8,759  | (689)                           | 8,070  |
| <b>Total</b>   | <b>54,487</b>                                      | <b>(9,453)</b>                  | <b>45,034</b>                                  |
| <b>Deferred tax liabilities</b>                          |  |                                 |  |
| Investments with repurchase agreements                   | 8,911  | (4,391)                         | 4,520  |
| Depreciation and price-level restatement of fixed assets | 5,990  | (1,732)                         | 4,258  |
| Transitory assets  | 3,158  | 378                             | 3,536  |
| Other adjustments  | 2,691  | (380)                           | 2,311  |
| <b>Total</b>   | <b>20,750</b>                                      | <b>(6,125)</b>                  | <b>14,625</b>                                  |

(1) For presentation purposes, deferred income tax balances as of December 31, 2006 are presented on a historical basis. For comparison purposes, price-level restated amounts for 2006 correspond to MCh\$58,520 for net deferred tax assets and MCh\$22,285 for net deferred tax liabilities.

Income taxes as presented in the Consolidated Statements of Income for the years ended December 31, 2005, 2006 and 2007 are summarized as follows:

Years ended December 31,

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|                                  | 2005            | 2006            | 2007            |
|----------------------------------|-----------------|-----------------|-----------------|
|                                  | MCh\$           | MCh\$           | MCh\$           |
| Current income tax provision     | (16,535)        | (17,047)        | (22,300)        |
| Deferred tax effect for the year | (5,254)         | (7,863)         | (3,328)         |
| Non-deductible expenses Art. 21  | (1,667)         | (969)           | (1,292)         |
| <b>Income taxes expense</b>      | <b>(23,456)</b> | <b>(25,879)</b> | <b>(26,920)</b> |

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

**22. Commitments and contingencies**

*(a) Legal contingencies*

In the ordinary course of business, Banco de Chile and its subsidiaries act as defendant or co-defendant in various litigation matters. Although there can be no assurances, Banco de Chile's management believes, based on information currently available, that the ultimate resolution of these legal proceedings are not likely to have a material adverse effect on its results of operations, financial condition, or liquidity. Banco de Chile has established provisions for legal contingencies in the amount of MCh\$1,489 and MCh\$1,019 as of December 31, 2006 and 2007, respectively.

*(b) Commitments*

Banco de Chile is party to transactions with off-balance sheet risk in the normal course of its business, which exposes Banco de Chile 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 Banco de Chile. The amounts of these loan commitments are MCh\$3,455,580 and MCh\$3,558,267 and the amounts of subscribed leasing contracts are MCh\$102,733 and MCh\$96,166 as of December 31, 2006 and 2007, respectively.

*(c) Obligations regarding the New York and Miami Branches*

In September 2004, the Federal Agencies of the Office of the Comptroller of the Currency (OCC) and the Federal Reserve Bank of Atlanta reviewed our New York and Miami branches respectively, in order to evaluate, among other matters, their compliance with the requirements of the U.S. Bank Secrecy Act and other U.S. regulations pertaining to anti money laundering. As a consequence of said reviews and on the date of February 1, 2005, the Bank agreed with the OCC to the issuance of a Consent Order and with the Federal Reserve Bank of Atlanta to the issuance of a Cease and Desist Order. In agreement with these orders, an action plan was developed to include the elaboration and maintenance of programs designed to strengthen compliance with aforementioned regulations.

Additionally, on December 31, 2007 Banco de Chile and Citibank N.A. signed an Agreement to Purchase the Assets and Assume the Liabilities of the New York and Miami Branches, effective January 1, 2008, by which Citibank N.A. acquired its assets and assumed its liabilities with certain exclusions, after receiving authorization from the federal agency Office of the Comptroller of the Currency (OCC) and the Federal Reserve Bank of Atlanta, paying Banco de Chile, on January 3, 2008, a total price of US\$130 million.

As a consequence of the above, the Miami and New York Branches of Banco de Chile have entered into a process of liquidating the assets not transferred under the condition of a non-banking entity which will conclude at the latest on June 30, 2008.

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On or about November 30, 2005, the Fundacion Presidente Allende an entity organized in accordance with the laws of Spain filed a civil claim against Banco de Chile and others for an amount not less than US\$7 million and punitive damages for US\$100 million. On September 28, 2006, the Court of the Southern District of New York dismissed all claims related to the above referenced lawsuit.

The Fundacion appealed this decision, and on January 18, 2007 requested to discontinue the aforementioned appeal.

**23. Fiduciary Activities**

The following items are recorded in memorandum accounts by Banco de Chile and represent fiduciary safekeeping and custody services:

|   | <b>As of December 31,</b> |                  |
|---|---------------------------|------------------|
|   | <b>2006</b>               | <b>2007</b>      |
|   | <b>MCh\$</b>              | <b>MCh\$</b>     |
| Securities held in safe custody                             | 2,356,056                 | 2,891,681        |
| Amounts to be collected on behalf of domestic third parties | 274,563                   | 270,417          |
| Amounts to be collected on behalf of foreign third parties  | 224,687                   | 153,731          |
| <b>Total fiduciary activities</b>                           | <b>2,855,306</b>          | <b>3,315,829</b> |

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**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. Pursuant to Chilean banking regulations, significant exposure exists when the concentration of any individual customer or counterparty exceeds ten percent of Banco de Chile's effective equity. Banco de Chile does not have a significant exposure to any individual customer or counterparty.

*Counterparty risk*

Banco de Chile 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 Banco de Chile's related exposure to credit risk, as of December 31, 2006 and 2007 are as follows:

| Bank                           | Counterparty<br>Risk<br>As of<br>December 31, |               |
|--------------------------------|---|---------------|
|                                | 2006<br>MCh\$                                 | 2007<br>MCh\$ |
| Banco Santander - Chile        | 17,376  | 75,036        |
| BBVA Banco Bhif                | 8,865   | 42,412        |
| Banco de Crédito e Inversiones | 7,186   | 28,827        |
| Corpbanca                      | 15,226  | 25,460        |
| Banco del Estado de Chile      | 43,461  | 16,359        |
| BankBoston N.A.-ITAU           | 4,386   | 12,259        |
| Deutsche Bank (Chile)          | 273   | 11,302        |
| Banco Bice                     | 3,878   | 6,966         |
| Banco Security                 | 2,626   | 6,622         |
| ABN Amro Bank (Chile)          | 2,776   | 6,314         |
| HSBC Bank Chile                | 684   | 5,711         |
| Banco Penta                    |   | 5,125         |
| Banco Falabella                | 3,406   | 5,096         |
| Citibank N.A.                  | 700   | 5,045         |
| Scotiabank Sud Americano       | 1,511   | 3,430         |
| Banco Ripley                   | 3,105   | 2,972         |
| JP Morgan Chase Bank           | 315   | 2,337         |
| Banco del Desarrollo           | 822   | 1,762         |
| Banco Internacional            | 140   | 1,282         |
| Banco Monex                    | 148   | 579           |
| Banco Paris                    | 227   | 297           |

Banco de Chile 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. Banco de Chile does not usually require collateral from these counterparties.



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**25. Sales and Purchases of Loans**

From time to time, Banco de Chile sells and purchases loans based on specific requirements from customers. During the years ended December 31, 2005, 2006 and 2007, Banco de Chile sold loans totaling MCh\$21,729, MCh\$30,357 and MCh\$4,010, respectively, however, Banco de Chile does not generally originate loans for future sale. Banco de Chile 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, 2006 and 2007, Banco de Chile purchased loans amounting to MCh\$173,985 and MCh\$9,631 respectively. During prior years Banco de Chile did not purchase 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\$2,633, MCh\$829 and MCh\$5 for the years ended December 31, 2005, 2006 and 2007, respectively.

**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, 2007.

|   | As of December 31, 2007       |   |  |                               | Total<br>2007<br>MCh\$ | Total<br>2006<br>MCh\$ |
|---|-------------------------------|---|--|-------------------------------|------------------------|------------------------|
|   | Due within<br>1 year<br>MCh\$ | Due after 1<br>year<br>but within<br>3 years<br>MCh\$ | Due after 3<br>years<br>but within<br>6 years<br>MCh\$ | Due after<br>6 years<br>MCh\$ |                        |                        |
|   | <b>ASSETS</b>                 |   |  |                               |                        |                        |
| Loans (1)   | 4,858,727                     | 1,850,191   | 1,495,035  | 2,195,783                     | 10,399,736             | 9,169,680              |
| Securities (2)  | 1,247,481                     |   |  |                               | 1,247,481              | 1,346,196              |
| Derivative instruments                                | 42,577                        | 26,192  | 4,483  | 7,860                         | 81,112                 | 54,238                 |
| <b>Total</b>  | <b>6,148,785</b>              | <b>1,876,383</b>                                      | <b>1,499,518</b>                                       | <b>2,203,643</b>              | <b>11,728,329</b>      | <b>10,570,114</b>      |
| <b>LIABILITIES</b>                                    |                               |   |  |                               |                        |                        |
| Deposit and other obligations (3)                     | 6,408,912                     | 305,114   |  |                               | 6,714,026              | 6,396,701              |
| Mortgage finance bonds                                | 59,948                        | 88,499  | 111,733  | 137,153                       | 397,333                | 512,982                |
| Bonds   | 55,504                        | 354,965   | 290,124  | 518,603                       | 1,219,196              | 1,031,270              |
| Chilean Central Bank borrowings:                      |                               |   |  |                               |                        |                        |
| Central Bank credit lines for renegotiations of loans | 513                           |   |  |                               | 513                    | 885                    |
| Borrowings from domestic financial institutions       | 73,947                        |   |  |                               | 73,947                 | 94,792                 |
| Foreign borrowings                                    | 765,301                       | 17,567  |  |                               | 782,868                | 635,349                |
| Other obligations                                     | 54,120                        | 1,603   | 1,846  | 921                           | 58,490                 | 28,388                 |
| Derivative instruments                                | 59,747                        | 53,176  | 4,230  | 3,009                         | 120,162                | 75,132                 |
| <b>Total</b>  | <b>7,477,992</b>              | <b>820,924</b>  | <b>407,933</b>   | <b>659,686</b>                | <b>9,366,535</b>       | <b>8,775,499</b>       |

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- (1) Excludes contingent loans, overdue loans (1-89 days) and past due loans (90 days or more).
- (2) Excludes unrealized gains on available for sale securities included in equity of MCh\$9 for the years ended December 31, 2006. 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.

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**27. Relevant Events:**

(a) On January 9, 2007, the Extraordinary General Shareholders Meeting of subsidiary Banchile Factoring S.A. agreed to increase its paid-in capital by MCh\$18,379 (historical). This increase was fully paid by Banco de Chile, thereby reaching a participation of 99.75% of the subsidiary's paid-in capital.

(b) On March 22, 2007, the Extraordinary General Shareholders Meeting of Banco de Chile agreed to increase its capital through the capitalization of 30% of its 2006 net income by issuing bonus shares without par value. On March 26, 2007 the Central Bank of Chile communicated its decision to request the cash payment of all its share in the Bank's net income as a result of being the holder of the subordinated debt issued by the Sociedad Administradora de la Obligación Subordinada SAOS S.A., holder of 28,593,701,789 shares pledged in favor of the Central Bank.

The amount capitalized by Banco de Chile amounted to MCh\$33,833 (historical), through issuance and distribution of 882,459,200 bonus shares, distributed at a rate of 0.02213 bonus shares for each share with right to receive it.

(c) The Ordinary Meeting of the Board of Directors of Banco de Chile held on March 26, 2007, accepted the resignation presented by directors Messrs. Fernando Cañas Berkowitz, Máximo Pacheco Matte and Segismundo Schulin-Zeuthen Serrano, and the resignation of the General Manager Mr. Pablo Granifo Lavín.

The Board designated the following directors as their replacements beginning on March 27, 2007 and until the next Ordinary Shareholders Meeting: Messrs. Hernán Büchi Buc, Jaime Estévez Valencia and Pablo Granifo Lavín.

Likewise, in the mentioned meeting Mr. Pablo Granifo Lavín was appointed as President of Banco de Chile and Mr. Fernando Cañas Berkowitz as General Manager, both starting on March 27, 2007.

(d) The General Extraordinary Shareholders Meeting of Banco de Chile, held on May 17, 2007, agreed to increase the paid-in capital of Banco de Chile by MCh\$110,000 by issuing 2,516,010,979 cash shares without par value. The Superintendency of Banks and Financial Institutions approved the capital increase on June 1, 2007 and registered the mentioned issuance in the Securities Registry. As agreed at the aforementioned Meeting, the Board of Directors set the preferential offer price of the new shares at Ch\$40.50.

As of December 31, 2007, 2,076,059,351 cash shares have been subscribed and paid for an amount of MCh\$84,349 (historical). The remaining 439,951,628 cash shares issued that have not been subscribed or paid as of December 31, 2007, are related to the shares whose subscription option belongs to the Sociedad Administradora de la Obligación Subordinada SAOS S.A. for the shares issued by Banco de Chile that are pledged to the Chilean Central Bank and must be disposed in accordance with article 30 of Law No. 19,396.

(e) On July 19, 2007, Banco de Chile and its Sociedad Matriz del Banco de Chile S.A. informed the Superintendency of Banks and Financial Institutions, the Superintendency of Securities and Insurance and the stock markets that they have become aware that Citigroup Inc. and Quiñenco S.A. signed a contract contemplating a strategic association of their businesses and financial services in or in respect to Chile, subject to obtaining the corresponding authorizations from the authorities in Chile and the United States of America, and the rest of the required approvals in accordance with current legislation and that the rest of the agreed conditions, as indicated in the contract, are fulfilled.

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**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

**27. Relevant Events (continued)**

(f) The Ordinary Meeting of the Board of Directors of Banco de Chile held on July 26, 2007, accepted the resignation presented by Director Mr. Thomas Fürst Freiwrth and Deputy Directors Messrs. Jorge Díaz Vial and Jorge Ergas Heymann.

The Board designated Mr. Fernando Quiroz Robles as Director and Messrs. Thomas Fürst Freiwrth, as first deputy director and Jorge Ergas Heymann, as second deputy director.

(g) On September 27, 2007, the Ordinary Meeting of the Board of Directors of Banco de Chile was informed of the analysis and information related to the assessment and valuation by Banco de Chile, of the assets, liabilities and other rights foreseen for the legal successor of the businesses of Citibank N.A. Agencia en Chile and especially of the report issued by J.P. Morgan Securities Inc. and J.P. Morgan Chile Limitada, for the purpose of an eventual merger between Banco de Chile and the indicated legal successor of Citibank N.A. Agencia en Chile.

According to the information available and analyzed to date, the Board considered it be in the best interest of the shareholders of Banco de Chile to merge with the legal successor of Citibank N.A. Agencia en Chile under the terms previously agreed upon with the controllers of both entities, Quiñenco S.A. and Citigroup Inc.. Consequently, it was agreed to request authorization from the Superintendency of Banks and Financial Institutions for the mentioned merger by incorporation in accordance with articles 35 bis of the General Banking Law and 25 of Law No. 19,396.

The Board of Directors expressed its intention to call for an Extraordinary General Shareholders Meeting to submit to their consideration the proposal to merge both institutions once the corresponding authorizations had been obtained and proposed to the Shareholders, among other matters, that the net income of each bank for 2007 be distributed among the current shares of each institution.

(h) On December 3, 2007, Banco de Chile made an offer to purchase all the shares of Legg Mason (Chile) Administradora General de Fondos S.A.; all assets, except for cash and cash equivalents, and certain obligations of Legg Mason (Chile) Inversiones Limitada. The total purchase price for the shares and assets amounts to thirteen million United States dollars.

(i) Through resolution No. 209 dated December 26, 2007, the Superintendency of Banks and Financial Institutions, after receiving a favorable report from the Central Bank of Chile authorized the merger between Banco de Chile and Citibank Chile.

In substance, the resolution of the Superintendency provided:

1. Authorization, for the purposes of article 35 bis of the General Banking Law, of the merger of Banco de Chile and Citibank Chile. The resulting bank from the merger will be required to maintain a ratio of its effective shareholders equity to risk weighted assets not lower than 10%.

2. Authorization also for the purposes of article 25, paragraph fourth of Law No. 19,396, of the mentioned merger. Banco de Chile will act as the absorbing bank and will maintain its legal status. The shareholders of Banco de Chile will have a proportion of 89.503% of the merged bank's equity and 10.497% will belong to the shareholders of Citibank Chile.

3. The requirements made by the Central Bank of Chile must be submitted for consideration or ratification by the extraordinary shareholders meetings which are already informed of the merger agreement in both banks.



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**27. Relevant Events (continued)**

(j) The following agreements were adopted at Extraordinary General Shareholders Meeting held on December 27, 2007:

1. To approve the merger by incorporation of Citibank Chile into Banco de Chile under the terms foreseen in the Merger Agreement signed by the parties on December 26, 2007. As a consequence of the merger, Banco de Chile will acquire all the assets and assume all the liabilities of Citibank Chile, succeeding it in all its rights and obligations and incorporating all its equity and shareholders. The merger is subject to the condition that the Extraordinary General Shareholders Meeting of Citibank Chile approves this merger.

Approve the Merger Agreement between Banco de Chile and Citibank Chile; the Agreement to Purchase Assets and Assume Liabilities of the New York and Miami Branches of Banco de Chile between this institution and Citibank N.A.; the Global Connectivity Agreement and the License Agreement between Banco de Chile and Citigroup Inc. and/or Citibank and/or subsidiaries.

2. To approve the conditions established by the Council of the Central Bank of Chile at meeting No. 1381-01-071220, for the merger of Banco de Chile and Citibank Chile.

The following conditions were approved:

- i) With respect to the annual installment of the subordinate obligation owed to the Central Bank of Chile by SAOS S.A. corresponding to 2009 and 2010, and in case the annual respective surplus of the merged Banco de Chile is not enough to fully pay any of those fixed installments, the Board of Directors of that banking entity must order that provisions used for the purpose of determining its effective shareholders equity be released under the term of letter c) of paragraph second of article 66 of the General Banking Law, as long as those provisions are not related to those established for covering its loan portfolio risks under the terms and conditions established in current regulations contained in Chapter 7-10 of the Compilation of Bank Standards of the Superintendency of Banks and Financial Institutions.
  - ii) That from the date of the report, December 20, 2007 and up to the approval of the merger agreements, the economic-financial situation of the mentioned banks does not experience variations that affect the terms of the respective merger proposals analyzed by the Central Bank of Chile and, additionally, all provisions and write-offs policies established by Banco de Chile and Citibank Chile have been entirely fulfilled.
3. To approve the capital increase of Banco de Chile in the amount of Ch\$297,324,899,039 which will be paid with the contribution of all the assets and liabilities of Citibank Chile, for which the former will issue 8,443,861,140 ordinary registered Banco de Chile S series shares without par value, that will be delivered to the shareholders of Citibank Chile, in the proportion of 8,443.86114 Banco de Chile shares for each Citibank Chile share. The share exchange will take place in the manner, period and conditions determined by the Board of Directors of Banco de Chile.

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**27. Relevant Events (continued)**

4. To agree that the merger will be in place starting January 1, 2008 and that the net income of each bank for 2007 will separately belong to the shareholders of each financial institutions in the manner and conditions determined by the Ordinary General Shareholders Meeting of the merged bank.

5. To approve modification of the Bylaws of Banco de Chile proposed by the Board

6. To approve new rearranged, coordinated and systematized wording of the Bank's Bylaws.

The Bank has had to recognize in income for the year expenses related to the merger in the amount of MCh\$1,757.

**28. Recent Accounting Pronouncements:**

On November 9, 2007, the Superintendency of Banks and Financial Institutions issued Circular No. 3,410, through which it informed the new compendium of accounting standards that Banks must apply, in the context of convergence with International Financial Reporting Standards (IFRS) developed by this Superintendency. This compendium establishes, among other matters, the monthly and annual financial statement presentation formats that the Banks must apply starting on January 1, 2008. Those new criteria will only affect the financial statement presentation and will not affect the accounting criteria used by the Bank during 2008.

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles**

The following is a description of the significant quantitative 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).

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, its agency in Miami, USA and its subsidiary Banchile Trade Services Limited in Hong Kong to Chilean pesos from US dollars in accordance with guidelines established by the Superintendency of Banks, which are consistent with Technical Bulletin N°64, 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 standards 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 (q) below.

*(a) Push Down Accounting and Purchase Accounting*

Under Chilean GAAP, the merger on January 1, 2002 between Banco de Chile and Banco de A. Edwards (the Predecessor Banks) was accounted for as a pooling of interests on a prospective basis. As such, the historical financial statements for periods prior to the merger were not restated and Banco de Chile was considered to be the continuing entity for legal and accounting purposes. Under U.S. GAAP, the merger of the two banks was accounted for as a merger of entities under common control, as LQ Inversiones Financieras, a holding company beneficially owned by Quiñenco, controlled both Banco de Chile and Banco de A. Edwards since March 27, 2001.

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 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.

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

*(a) Push Down Accounting and Purchase Accounting (continued)*

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, 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

The above mentioned 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 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 Bank and their subsequent effects on net income is included in paragraph (q), below.

In addition to the above mentioned adjustments, under US GAAP Quiñenco has considered the fair value of the subordinated debt arising from the economic crisis of 1982-1983. A detailed discussion of this matter is included below.

The parent company of the Bank, SM Chile S.A. ( SM-Chile ) has a subordinated debt that arose during and as a result of the economic crisis in 1982-1983. From 1984 through 1986, the predecessor entity, the former Banco de Chile, sold certain of its non-performing loans to the Chilean Central Bank at face value on terms that included a repurchase obligation. This was one of the mechanisms used by the Central Bank of Chile to deal with the economic crisis. In 1989, the repurchase obligation was exchanged for subordinated debt issued in favor of the Central Bank of Chile. In 1996, a reorganization took place by in which the former Banco de Chile was converted to a holding company named SM Chile, which

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in turn formed a new wholly-owned banking subsidiary named Banco de Chile to which SM Chile contributed all of its assets and liabilities other than the subordinated debt payable to the Central Bank. SM Chile then created a second wholly owned subsidiary named SAOS, which pursuant to a prior agreement with Central Bank, assumed a new repayment obligation which replaced the previous subordinated debt in its entirety.

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

*(a) Push Down Accounting and Purchase Accounting (continued)*

In exchange for assuming the Central Bank indebtedness, SAOS received from SM Chile shares of the Bank as collateral for this indebtedness. As of December 31, 2007, SAOS holds 39.72% of the Bank shares as collateral for this subordinated debt obligation. As stated by the Law, in exchange for securing the subordinated debt by pledging the Bank shares held by SM-Chile, SM-Chile shareholders were granted the right of first refusal in the event that SAOS is required by Central Bank to sell all or a portion of the pledged shares to cover any unpaid balance. Additionally, the Law stated that voting rights of the pledged shares are to be held by SM-Chile shareholders. Dividends received from the Bank are the sole source of SAOS's revenues and must be used to repay this indebtedness.

As of December 31, 2007 the outstanding subordinated debt balance held by SAOS amounted to MCh\$956,889. During the years 2005, 2006 and 2007, SAOS paid to the Central Bank a total of MCh\$73,525, MCh\$83,140 and MCh\$83,846, exceeding in all these three years the required minimum annual payment.

Pursuant to the law, SAOS and SM-Chile will be automatically dissolved upon extinction of the debt, either by full payment or execution of the collateral. Under the terms of SM-Chile's bylaw and the Law, all the outstanding shares of the Bank held by SM-Chile and SAOS, as well as any other remaining asset, will be then distributed to SM-Chile shareholders.

As of December 31, 2007, major shareholders of SM-Chile are LQ Inversiones Financieras S.A. and Inversiones LQ-SM S.A., both subsidiaries of Quiñenco S.A., having a participation of 49.72% and 3.11% of total shares, respectively. Likewise, major shareholders of Banco de Chile are SAOS S.A., LQ Inversiones Financieras S.A. and SM-Chile having a participation of 39.72%, 22.32% and 16.86% of total shares, respectively.

SAOS is variable interest entity (VIE) as defined in FASB Interpretation No. 46(R) Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46R). In accordance with FIN 46R, the primary beneficiary is the party that consolidates a VIE based on its assessment that it will absorb a majority of the expected losses or expected residual returns of the entity, or both. The Bank has determined that it is not the primary beneficiary of SAOS and, therefore, it has not consolidated SAOS in the Consolidated Financial Statements of Banco de Chile.

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(b) Acquisition of Banco de A. Edwards*

Under U.S. GAAP, to the extent that the Predecessor 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 at the time of the merger, 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 was considered 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 Bank. Such assets were not required to be recorded under existing Chilean GAAP at that time.

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 was considered to have acquired 48.82% of the outstanding shares in Banco de A. Edwards, which corresponded 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\$25,110.17 (historical Chilean pesos) per share, plus merger expenses.

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                         | 141,561   |
| Incremental fair value of identified intangible assets (1)(2) | 36,632    |
| Fair value increment of identified net assets acquired        | (52,823)  |
| <br>  |           |
| Fair value of Banco de A. Edwards                             | 125,370   |
| <br>  |           |
| Market value of Banco de Chile shares issued                  | (343,730) |
| Direct costs of acquisition                                   | (1,381)   |
| <br>  |           |
| Goodwill  | (219,741) |

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- (1) Core deposit intangibles resulting from the acquisition amounted to MCh\$32,622 and is 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\$4,010 and is being amortized over 10 years.

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

|                                    | <b>As of<br/>January 1,<br/>2002<br/>MCh\$</b> |
|------------------------------------|--|
| Cash and due from banks            | 144,250  |
| Financial investments              | 213,133  |
| Loans, net                         | 1,236,054                                      |
| Intangibles                        | 36,632   |
| Other                              | 99,005   |
| <b>Total assets acquired</b>       | <b>1,729,074</b>                               |
| Deposits                           | 980,384  |
| Other interest bearing liabilities | 537,875  |
| Other liabilities                  | 85,445   |
| <b>Total liabilities assumed</b>   | <b>1,603,704</b>                               |
| <b>Net assets acquired</b>         | <b>125,370</b>                                 |

Of the MCh\$36,632 of acquired intangible assets, MCh\$32,622 was assigned to core deposits 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\$4,010 has been assigned to a registered trademark that is being amortized over a 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 (c) below.

*(c) 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 this standard, beginning January 1, 2002, all goodwill, including that acquired before initial application of the standard, and indefinite-lived intangible assets are not

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amortized, but must be tested for impairment at least annually.

The Bank has performed the annual 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, 2007. Under U.S. GAAP, the carrying value of goodwill, net of accumulated amortization, related to the push-down of goodwill from Quiñenco, the acquisitions of Banco de A. Edwards and Leasing Andino, described in paragraphs (a), (b) and (m) to this note, respectively, were MCh\$420,946 MCh\$219,741 and MCh\$2,180, respectively.

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(c) Amortization of Goodwill and Intangible Assets (continued)*

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

| <b>Business Segments</b> | <b>MCh\$</b>   |
|--------------------------|----------------|
| Wholesale                | 378,454        |
| Retail Market            | 178,617        |
| International            | 46,651         |
| Treasury                 | 12,407         |
| Subsidiaries             | 26,738         |
| <b>Total goodwill</b>    | <b>642,867</b> |

*(d) Deferred Income taxes*

Under Statement of Financial Accounting Standard No. 109 ( SFAS 109 ), Accounting for Income Taxes , income taxes are recognized using the liability method in a manner similar to Chilean GAAP.

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

*(e) 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 (q) below.

*(f) 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.

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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

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

*(f) Interest income recognition on non-accrual loans (continued)*

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.

*(g) Contingent assets and liabilities*

Under Chilean GAAP the Bank recognizes rights and obligations with respect to contingent loans as contingent assets and liabilities. Under U.S. GAAP, such 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\$1,061,498 and MCh\$1,267,706 as of December 31, 2006 and 2007, respectively. This reclassification is included in the Article 9 consolidated financial statements in paragraph (s) below.

Within contingent assets and liabilities the Bank includes financial guarantees. 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 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. Under Chilean GAAP, the Bank recognizes a liability which approximates fair value of the obligation related to guarantees. The required FIN 45 disclosures have been incorporated into paragraph (z), below.

*(h) 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 (m).

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:

i) Commercial loans and leasing operations considered not 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).

ii) Commercial loans and leasing operations 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.



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1) Allowance for loan losses (continued)

iii) Allowance for loan losses for mortgage and consumer loans were determined using risk matrix models including historical loan charge-offs net of recoveries and other variables to adjust changes in trends and conditions.

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 determined in accordance with the guidelines established by the Superintendency of Banks. The additional loan loss allowance included in the determination of the Bank's allowance for loan losses under Chilean GAAP has not been considered in the determination of the reserve requirements under U.S. GAAP to arrive at a cumulative U.S. GAAP adjustment, as follows:

|  | <b>As of December 31,</b> |                 |
|--|---------------------------|-----------------|
|  | <b>2006</b>               | <b>2007</b>     |
|  | <b>MCh\$</b>              | <b>MCh\$</b>    |
| U.S. GAAP loan loss reserve  | 130,276                   | 133,373         |
| Less: Chilean GAAP loan loss allowance as required by the Superintendency of Banks | (155,445)                 | (161,123)       |
| <b>U.S. GAAP adjustment</b>  | <b>(25,169)</b>           | <b>(27,750)</b> |

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

2) Recognition of income

As of December 31, 2005, 2006 and 2007 the recorded investment in loans for which impairment had been recognized in accordance with SFAS No. 114 totaled MCh\$415,855, MCh\$388,637 and MCh\$387,390, respectively, with a corresponding valuation allowance of MCh\$78,908, MCh\$73,759 and MCh\$71,840, respectively. For the years ended December 31, 2005, 2006 and 2007 the average recorded investment in impaired loans was MCh\$448,800, MCh\$392,538 and MCh\$368,915, respectively. For the years ended December 31, 2005, 2006 and 2007, the Bank recognized interest on impaired loans MCh\$48,382, MCh\$29,224 and MCh\$40,159. 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 (f) above. As of December 31, 2006 and 2007, the Bank had made provisions against all loans which it considered to be impaired.

3) Loan loss recoveries

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Under U.S. GAAP recoveries of loans previously charged-off are presented as a reduction of the provision for loan losses. Under Chilean GAAP, until 2003, such recoveries were recognized as other income. Beginning 2005, such recoveries are presented as a reduction of the provision for loan losses.

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(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(h) Allowance for loan losses (continued)*

The following presents an analysis under U.S. GAAP of the changes in the allowance for loan losses during the periods presented.

|  | As of December 31, |                |                |
|--|--------------------|----------------|----------------|
|  | 2005<br>MCh\$      | 2006<br>MCh\$  | 2007<br>MCh\$  |
| Allowance for loan losses in accordance with U.S. GAAP, as of January 1, | 129,573            | 112,437        | 130,276        |
| Price-level restatement (1)  | (6,072)            | (3,151)        | (10,728)       |
| Charge-offs  | (73,829)           | (65,140)       | (71,546)       |
| Loan loss recoveries   | 36,171             | 30,179         | 35,124         |
| Allowances for loan losses established                                   | 26,980             | 56,321         | 50,247         |
| Allowances for loan losses released                                      | (386)              | (370)          |                |
| <b>Balances as of December 31,</b>                                       | <b>112,437</b>     | <b>130,276</b> | <b>133,373</b> |

(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, 2007.

4) Charge-offs

As discussed in Note 1 (1) 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 generally the same as those required under U.S. GAAP.

5) Loan Purchases

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On a non-recurring basis, the Bank acquires non-impaired loans directly from the market or from other financial institutions, mainly to meet its customer requirements. Under Chilean GAAP, loans purchased are recorded at fair value (price paid) when acquired, classified and recorded in the loan portfolio line item to which it relates and any discount or premium is recognized as an adjustment to interest income using the effective interest rate method. The Bank does not purchase loans that are deemed impaired at the acquisition date.

Under US GAAP, the Bank applies the requirements of the Statement of Financial Accounting Standards No. 91 ( SFAS 91 ), Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases to non-impaired loans . When discounts or premiums are attributable to the credit quality of the purchased loan, the accounting treatment for this differences is prescribed by the Statement of Position (SOP) No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3).

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**BANCO DE CHILE AND SUBSIDIARIES**

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**(Restated for general price - level changes and expressed in millions of constant**

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

*(h) Allowance for loan losses (continued)*

SFAS 91 states that any purchase premiums or discounts on loans shall be recognized as an adjustment of yield generally by the effective interest method based on the contractual terms of the loan. SOP 03-3 requires acquired loans to be recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. Furthermore SOP 03-3 limits the yield that may be accreted (accretable yield) 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 (nonaccretable yield) may not be recognized as an adjustment of yield, loss accrual or valuation allowance. 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 impairments.

Considering that the Bank is not engaged in the purchase of impaired loans and the accounting treatment between Chilean and US GAAP for discounts or premiums as result of the acquisition of non-impaired loans does not differ, no differences arise.

During the years ended December 31, 2005, 2006, and 2007, Banco de Chile purchased non-impaired loans amounting to MCh\$66,019, MCh\$173,985 and MCh\$124,552.

*(i) Financial investments*

Under Chilean GAAP, until December 31, 2005 financial investments were classified as permanent and non-permanent. Non-permanent investments with a secondary market were adjusted at their market value in accordance with the specific instructions issued by the Chilean Superintendency of Banks and Financial Institutions. These instructions required that changes in non-permanent investments market value were recorded in income.

Financial investments classified as permanent investments were adjusted at their market value in accordance with the specific instructions issued by the Chilean Superintendency of Banks and Financial Institutions. These instructions required that changes in permanent investments market value were recorded in a separate component of shareholders' equity, net of taxes.

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.

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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, net of taxes.

Consequently, investments classified as permanent until 2005 under Chilean GAAP were considered to be available-for-sale and all other investments are considered to be trading, with the exception of certain investments, maintained by the Bank's branches in the United States of America, which are classified as held-to-maturity.

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(i) Financial investments (continued)*

Under Chilean GAAP, investments maintained by the Bank's branches abroad classified as held-to-maturity were stated at fair market value. Under U.S. GAAP, held-to-maturity securities are stated at amortized cost and analyzed for impairment on a periodic basis.

(1) Under Chilean GAAP, the unrealized holdings gains (losses) related to investments classified as permanent until 2005 have been included in Shareholders' equity, which does not differ from the treatment of available-for-sale investments under U.S. GAAP.

As stated in Note 2 to these financial statements, beginning 2006 the Bank adopted Circular No.3,345 (the Circular), as issued by the Superintendency of Banks. This circular established new accounting and classification criteria for investments securities and derivative instruments, among other. The new accounting criteria and classification rules are broadly similar to US GAAP, therefore, beginning 2006 no differences arise for financial investments. See Note 1(f) for further details on Chilean GAAP accounting rules on financial investments.

The following are required disclosures for investments classified as available-for-sale in accordance with SFAS N°115 and the presentation requirements of Article 9 (see paragraph (s) below), 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 investment identified to be sold. For the years ended December 31, 2005, 2006 and 2007 no gains and losses realized on the sale of available-for-sale securities were recorded.

The carrying value and market value of investments available-for-sale as of December 31, 2006 and 2007 are as follows:

|                                 | Years ended December 31, |                        |                             |               |                      |                        |                         |                      |
|---------------------------------|--------------------------|------------------------|-----------------------------|---------------|----------------------|------------------------|-------------------------|----------------------|
|                                 | Carrying Value           | 2006                   |                             |               | Estimated Fair Value | 2007                   |                         |                      |
|                                 |                          | Gross Unrealized Gains | Gross Unrealized Losses (*) |               |                      | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|                                 | MCh\$                    | MCh\$                  | MCh\$                       | MCh\$         | MCh\$                | MCh\$                  | MCh\$                   | MCh\$                |
| Available-for-sale Instruments: |                          |                        |                             |               |                      |                        |                         |                      |
| U.S. Government debt securities | 43,041                   |                        | (10)                        | 43,031        |                      |                        |                         |                      |
| <b>Total</b>                    | <b>43,041</b>            |                        | <b>(10)</b>                 | <b>43,031</b> |                      |                        |                         |                      |

(\*) Investments with unrealized losses are disclosed and segregated in accordance with paragraph 21 of EITF 03-01. The unrealized losses were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Bank has the ability and intends to hold investment until recovery of its

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investment, which may be maturity, the Bank does not consider these investments to be other than temporary impaired as of December 31, 2006.

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(Restated for general price - level changes and expressed in millions of constant

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(i) Financial investments (continued)*

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

|                                 | Years ended December 31,   |                               |                                     |                            |                               |                                     |
|---------------------------------|----------------------------|-------------------------------|-------------------------------------|----------------------------|-------------------------------|-------------------------------------|
|                                 | 2006                       |                               |                                     | 2007                       |                               |                                     |
|                                 | Amortized<br>Cost<br>MCh\$ | Unrealized<br>Losses<br>MCh\$ | Estimated<br>Fair<br>Value<br>MCh\$ | Amortized<br>Cost<br>MCh\$ | Unrealized<br>Losses<br>MCh\$ | Estimated<br>Fair<br>Value<br>MCh\$ |
| Held-to-maturity Instruments:   |                            |                               |                                     |                            |                               |                                     |
| U.S. Government debt securities | 17,187                     |                               | 17,187                              |                            |                               |                                     |
| <b>Total</b>                    | <b>17,187</b>              |                               | <b>17,187</b>                       |                            |                               |                                     |

The Bank evaluates all investments for declines in value that are considered other than temporary ( permanent impairment ). The Bank charges-off to earnings any amounts which are deemed to be a permanent impairment of the value of that security.

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

*(j) Derivatives*

The Bank enters into derivative transactions for its own account and to meet customers' risk management needs. Banco de Chile and its subsidiaries protect themselves against variations in the foreign exchange and interest rate market by using forward contracts, currency futures contracts, currency swaps and interest rates swaps. These activities include hedging and treasury operations and help Banco de Chile and its subsidiaries provide financial products their clients.

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.

Until December 31, 2005, forward contracts were recorded at the exchange rate in force at the close of each month and, in accordance with the standards issued by the Chilean Superintendency of Banks and Financial Institutions, initial differences generated by this type of operations were recognized as deferred assets or liabilities and amortized over the term of the related contract. All other derivative instruments were reported at their market value.

Beginning 2006, as a result of the adoption of Circular N°3,345 under Chilean GAAP all financial derivative contracts, which include foreign currency and U.F. forwards, interest rate forwards, currency and interest rate swaps, currency and interest rate options and other financial derivative instruments, are recorded in the balance sheet at cost (including transaction costs) at inception and subsequently measured at their fair value. The fair value is obtained from market quotes, discounted cash flows models and options valuation models, as and where applicable. Derivative contracts are reported as an asset when their fair value is positive and as a liability when negative under the line item "Derivative instruments". The losses recognized in income associated with these contracts for the years ended December 31, 2005 and 2007 were MCh\$20,935 and MCh\$25,776 respectively, and the gains recognized in income associated with these contracts for the year ended December 31, 2006 was MCh\$27,067.

Until 2005, Chilean accounting rules did not considered the existence of embedded derivatives and, therefore, were not reflected in the financial statements. Beginning 2006, certain derivatives embedded in other financial instruments are treated as separate derivatives when their risk and characteristics are not closely related to those of the main contract and this is not recorded at its fair value with its unrealized gains and losses included in income. The above mentioned circular did not included service type contracts when evaluating for embedded derivatives.

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

*(j) Derivatives (continued)*

Beginning 2006, certain derivatives transactions which do not qualify for hedge accounting under the new accounting rules set by the above mentioned circular are treated and reported as derivatives for investing purposes even though they provide an effective hedge on the risk of net positions.

See further details about the Chilean accounting treatment of derivate instruments in note 1(e).

Under U.S. GAAP, the Bank applies SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No.138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (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.

As a result of the new accounting rules adopted in 2006, as set by the circular, no significant differences arise when applying SFAS 133 to derivatives accounting, other than the recognition of certain derivatives embedded in service type contracts.

**Fair Value Hedge**

During 2006, Banco de Chile has entered into an interest rate swap agreement for hedging its interest rate risk exposure related to the subordinated debt issued during 2006. The interest rate swap agreement modifies the Bank's exposure to interest risk by converting its subordinated note's fixed-rate debt to a floating interest. This agreement involves the payment of a fixed rate amount in exchange for floating rate interest payments over the life of the agreement without exchanging any underlying principal.

For the year ended December 31, 2006 Banco de Chile recognized in the line item *Gains from trading activities* a net gain of MCh\$903 and for 2007 recognized in the line item *Losses from trading activities* a net loss of MCh\$744 related to the ineffective portion of its hedging instruments.

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 (q) below.

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

*(k) Mandatory 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\$62,908 and MCh\$72,686 as of December 31, 2006 and 2007, respectively, under U.S. GAAP. The effects of these adjustments on the shareholders' equity of the Bank are included in paragraph (q) below.

*(l) 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 portfolio 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. 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 12-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 (q) below.

*(m) 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\$16,201. Under Chilean GAAP, the Bank recorded goodwill in the amount of MCh\$1,424 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 goodwill recorded as a result of this transaction during the year ended December 31, 1999.

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.

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 (q) below.

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

*(n) Staff severance indemnities*

The provision for staff severance indemnities 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 related liability is calculated by discounting the benefit accrued using real interest rates, as described in Note 1(p), 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 (q), below.

*(o) Accumulated deficit development period*

For Chilean GAAP purposes, investments in companies which are in the development stage, over which the Bank has significant influence, are recorded using the equity method, and the Bank's proportional share of the investee's income is recorded in a reserve that forms part of the Bank's shareholders equity. For US GAAP purposes, the proportional share of the investee's income must be charged directly to income. The effect of differences in accounting methods between Chilean and U.S. GAAP on the consolidated net income and shareholder's equity of the Bank is included in paragraph (q) below.

*(p) Discontinued operations*

Under Chile GAAP, the disposal plan of assets and liabilities of the New York and Miami Branches was not considered as a group of assets and liabilities held for sale and as discontinued operations for presentation purposes due to the immaterial contribution to the consolidated financial statements of the Bank.

Under U.S. GAAP this group of assets and liabilities held for sale are accounted in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets which is effective for fiscal years beginning after December 15, 2001. SFAS 144 establishes the accounting and reporting standards for the impairment and disposal of long-lived assets (or group of assets and liabilities) and discontinued operations.

On December 27, 2007 our shareholders approved the merger of Citibank Chile into Banco de Chile, which became effective on January 1, 2008. Additionally, on December 31, 2007 Banco de Chile and Citibank N.A. signed an Agreement to Purchase the Assets and Assume the Liabilities of the New York and Miami Branches, effective January 1, 2008, by which Citibank N.A. acquired its assets and assumed its liabilities with certain minor exclusions, after receiving authorization from the federal agency Office of the Comptroller of the Currency (OCC) and the Federal Reserve Bank of Atlanta, paying Banco de Chile, on January 3, 2008, a total consideration of US\$130 million.

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(p) Discontinued operations (continued)*

As a consequence of the above, the Miami and New York Branches of Banco de Chile have been considered as held for sale as of December 31, 2007, and valued at the lower of its carrying amount and fair value less cost of sale for US GAAP purposes.

These subsidiaries were reported as part of the International Banking operating segment. They were accounted as a group of assets and liabilities held for sale and as discontinued operations in accordance with SFAS 144 .

The assets and liabilities held for sale on the discontinued operations included in the consolidated Balance Sheet group of the Bank under US GAAP are as follows:

|  | <b>As of December 31,</b> |                |
|--|---------------------------|----------------|
|  | <b>2006</b>               | <b>2007</b>    |
|  | <b>MCh\$</b>              | <b>MCh\$</b>   |
| <b>ASSETS</b>                            |                           |                |
| Cash and due from banks                  | 19,121                    | 15,770         |
| Term Federal Funds                       | 109,407                   | 267,883        |
| Interest bearing deposits in other banks | 32,742                    | 75,756         |
| Trading investments                      | 163,797                   |                |
| Available-for-sale investments           | 43,031                    |                |
| Held-to-maturity investments             | 17,187                    |                |
| Subtotal                                 | <b>385,285</b>            | <b>359,409</b> |
| Loans                                    | 101,071                   | 49,509         |
| Allowance for loan losses                | (262)                     | (17)           |
| Loans, net                               | <b>100,809</b>            | <b>49,492</b>  |
| Premises and equipment, net              | 2,472                     | 460            |
| Other assets                             | 12,505                    | 3,375          |
| <b>GROUP OF ASSETS HELD FOR SALE</b>     | <b>501,071</b>            | <b>412,736</b> |
| <b>LIABILITIES</b>                       |                           |                |
| <i>Deposits:</i>                         |                           |                |
| Non-interest bearing                     | 240,804                   | 226,420        |
| Interest bearing                         | 189,738                   | 158,061        |
| Total deposits                           | <b>430,542</b>            | <b>384,481</b> |

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|   |                |                |
|---|----------------|----------------|
| Short-term borrowings                           | 230            |                |
| Investments sold under agreements to repurchase | 20,009         |                |
| Other liabilities                               | 42,963         | 599            |
| <b>GROUP OF LIABILITIES HELD FOR SALE</b>       | <b>493,744</b> | <b>385,080</b> |

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(p) Discontinued operations (continued)*

The following are the results of the discontinued operations of the Bank under US GAAP included in the consolidated Income Statement:

| <i>Income Statements</i>  | Years ended December 31, |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | 2005<br>MCh\$            | 2006<br>MCh\$   | 2007<br>MCh\$   |
| <b>INTEREST INCOME:</b>   |                          |                 |                 |
| Interest and fees on loans  | 4,521                    | 4,458           | 6,867           |
| Interest on investments   | 10,786                   | 19,349          | 13,013          |
| Interest on deposits with banks   | 5,351                    | 2,439           | 2,455           |
| <b>Total interest income</b>  | <b>20,658</b>            | <b>26,246</b>   | <b>22,335</b>   |
| <b>INTEREST EXPENSE:</b>  |                          |                 |                 |
| Interest on deposits  | (6,219)                  | (9,818)         | (7,708)         |
| Interest on short-term debt   |                          |                 | (3,284)         |
| Interest on long-term debt  | (2,693)                  | (3,370)         |                 |
| <b>Total interest expense</b>   | <b>(8,912)</b>           | <b>(13,188)</b> | <b>(10,992)</b> |
| <b>Net interest income</b>  | <b>11,746</b>            | <b>13,058</b>   | <b>11,343</b>   |
| <b>PROVISION FOR LOAN LOSSES</b>  | <b>1,359</b>             | <b>175</b>      | <b>209</b>      |
| <b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>              | <b>13,105</b>            | <b>13,233</b>   | <b>11,552</b>   |
| <b>OTHER INCOME:</b>  |                          |                 |                 |
| Fees and income from services, net                                      | 2,763                    | 2,266           | 1,525           |
| Brokerage and securities income net gain (losses) on trading activities | (48)                     | 430             | (3,085)         |
| Net gains (losses) on foreign exchange                                  | 283                      | 408             | 366             |
| Other income  |                          |                 | 193             |
| <b>Total other income</b>   | <b>2,998</b>             | <b>3,104</b>    | <b>(1,001)</b>  |
| <b>OTHER EXPENSES:</b>  |                          |                 |                 |
| Salaries  | (3,977)                  | (6,099)         | (7,434)         |

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|  |                 |                 |                 |
|--|-----------------|-----------------|-----------------|
| Net premises and equipment expenses        | (1,250)         | (2,191)         | (1,909)         |
| Administration expenses                    | (16,877)        | (12,709)        | (2,647)         |
| Other expenses                             |                 | (14)            | (37)            |
| Minority interest                          |                 |                 |                 |
| Total other expenses                       | <b>(22,104)</b> | <b>(21,013)</b> | <b>(12,027)</b> |
| <b>LOSS BEFORE INCOME TAXES</b>            | <b>(6,001)</b>  | <b>(4,676)</b>  | <b>(1,476)</b>  |
| <b>INCOME TAXES</b>                        | <b>(32)</b>     | <b>(71)</b>     | <b>984</b>      |
| <b>NET LOSS ON DISCONTINUED OPERATIONS</b> | <b>(6,033)</b>  | <b>(4,747)</b>  | <b>(492)</b>    |

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(q) 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, |                |                |                |
|--|--------------------------|----------------|----------------|----------------|
|  | 2005<br>MCh\$            | 2006<br>MCh\$  | 2007<br>MCh\$  | 2007<br>ThUS\$ |
| <b>Net income in accordance with Chilean GAAP</b>                              | <b>198,174</b>           | <b>209,696</b> | <b>242,288</b> | <b>488,661</b> |
| <b>U.S. GAAP adjustments:</b>  |                          |                |                |                |
| Push Down accounting (Note 29(a))  |                          |                |                |                |
| Fair value of intangibles  | (11,469)                 | (14,360)       | (14,360)       | (28,962)       |
| Fair value of loans  | (681)                    | (1,066)        |                |                |
| Fair value of premises   | (325)                    | (256)          | (257)          | (518)          |
| Fair value of other  | (380)                    | 237            |                |                |
| Acquisition of Banco Edwards (Note 29(b))                                      |                          |                |                |                |
| Fair value of intangibles  | (3,565)                  | (2,832)        | (2,400)        | (4,840)        |
| Fair value of loans  | 733                      | 589            | 1,069          | 2,156          |
| Fair value of other interest bearing liabilities                               | 4,656                    | 4,467          | 3,967          | 8,001          |
| Fair value of premises   | (10)                     | (10)           | (11)           | (22)           |
| Fair value of other  | 89                       | 85             | 76             | 153            |
| Investments in other companies (Note 29 (e))                                   | 94                       | (112)          | (80)           | (161)          |
| Allowance for loan losses (Note 29 (h))  | (1,080)                  | (16,866)       | 2,581          | 5,206          |
| Derivatives (Note 29 (j))  | (5,357)                  | (434)          | 194            | 391            |
| Investment securities (Note 29 (i))  | 53                       | 74             | (62)           | (125)          |
| Assets received in lieu of payment (Note 29 (l))                               | 3,105                    | 1,761          | (3,981)        | (8,029)        |
| Staff severance indemnities (Note 29(n))                                       | (1,349)                  | (468)          | (299)          | (603)          |
| Deferred tax effect of the above U.S. GAAP adjustments (Note 29 (d))           | 2,649                    | 5,121          | 2,290          | 4,618          |
| Accumulated deficit development period (Note 29 (o))                           | (206)                    |                |                |                |
| <b>Net income in accordance with U.S. GAAP</b>                                 | <b>185,131</b>           | <b>185,626</b> | <b>231,015</b> | <b>465,926</b> |
| <b>Other comprehensive income, net of tax (Note 29(u))</b>                     | <b>(3,627)</b>           | <b>337</b>     | <b>(2,497)</b> | <b>(5,036)</b> |
| Unrealized holding gains (losses) on available-for-sale securities, net of tax | (86)                     | (12)           | 7              | 14             |
| Adjustment for translation differences   | (3,541)                  | 349            | (2,504)        | (5,050)        |
| <b>Comprehensive income in accordance with U.S. GAAP</b>                       | <b>181,504</b>           | <b>185,963</b> | <b>228,518</b> | <b>460,890</b> |

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(q) 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, |                  |                  |
|--|--------------------------|------------------|------------------|
|  | 2006<br>MCh\$            | 2007<br>MCh\$    | 2007<br>ThUS\$   |
| <b>Shareholders' Equity in accordance with Chilean GAAP</b>          | <b>896,393</b>           | <b>1,051,393</b> | <b>2,120,513</b> |
| <b>U.S. GAAP adjustments:</b>  |                          |                  |                  |
| Push Down accounting (Note 29(a))                                    |                          |                  |                  |
| Goodwill   | 442,807                  | 442,807          | 893,080          |
| Goodwill accumulated amortization (Note 29(c))                       | (21,861)                 | (21,861)         | (44,091)         |
| Fair value of intangibles  | 201,670                  | 201,670          | 406,740          |
| Amortization of fair value of intangibles                            | (87,687)                 | (102,047)        | (205,815)        |
| Fair value of premises   | 12,897                   | 12,897           | 26,011           |
| Amortization of fair value of premise                                | (1,554)                  | (1,811)          | (3,653)          |
| Acquisition of Banco Edwards (Note 29 (b))                           |                          |                  |                  |
| Goodwill   | 219,741                  | 219,741          | 443,187          |
| Fair value of intangibles  | 36,632                   | 36,632           | 73,882           |
| Amortization of fair value of intangibles                            | (23,101)                 | (25,501)         | (51,432)         |
| Fair value of loans  | (3,749)                  | (2,680)          | (5,405)          |
| Fair value of other interest bearing liabilities                     | (30,167)                 | (26,200)         | (52,842)         |
| Fair value of premises   | 100                      | 100              | 202              |
| Amortization of fair value of premises                               | (50)                     | (61)             | (123)            |
| Fair value of other  | (576)                    | (500)            | (1,008)          |
| Investments in other companies (Note 29 (e))                         | 596                      | 516              | 1,041            |
| Allowance for loan losses (Note 29 (h))                              | 25,169                   | 27,750           | 55,968           |
| Derivatives (Note 29 (j))  | 71                       | 265              | 534              |
| Investment securities (Note 29 (i))                                  | 128                      | 66               | 133              |
| Assets received in lieu of payment (Note 29 (l))                     | 7,188                    | 3,207            | 6,468            |
| Minimum Dividend (Note 29 (k))                                       | (62,908)                 | (72,686)         | (146,598)        |
| Goodwill - Leasing (Note 29 (m))                                     | 2,180                    | 2,180            | 4,397            |
| Staff severance indemnities (Note 29 (n))                            | (5,980)                  | (6,279)          | (12,664)         |
| Deferred tax effect of the above U.S. GAAP adjustments (Note 29 (d)) | (22,267)                 | (19,977)         | (40,291)         |
| <b>Shareholders' Equity in accordance with U.S. GAAP</b>             | <b>1,585,672</b>         | <b>1,719,621</b> | <b>3,468,234</b> |



**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(q) 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, 2006 and 2007:

|  | Years ended December 31, |                  |                  |
|--|--------------------------|------------------|------------------|
|  | 2006<br>MCh\$            | 2007<br>MCh\$    | 2007<br>ThUS\$   |
| Balance as of January 1,   | 1,567,794                | 1,585,672        | 3,198,080        |
| Dividends paid   | (164,629)                | (172,644)        | (348,202)        |
| Mandatory dividends, previous date                               | 59,452                   | 62,908           | 126,877          |
| Mandatory dividends, closing date                                | (62,908)                 | (72,686)         | (146,598)        |
| Unrealized gains on Available-for-sale investments, net of taxes | (12)                     | 7                | 14               |
| Subscription and payment of shares                               |                          | 87,853           | 177,187          |
| Cumulative translation adjustment                                | 349                      | (2,504)          | (5,050)          |
| Net income in accordance with U.S. GAAP                          | 185,626                  | 231,015          | 465,926          |
| <b>Balance as of December 31,</b>                                | <b>1,585,672</b>         | <b>1,719,621</b> | <b>3,468,234</b> |

*(r) 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, |              |              |
|---|--------------------------|--------------|--------------|
|   | 2005<br>Ch\$             | 2006<br>Ch\$ | 2007<br>Ch\$ |
| <b>Chilean GAAP(1)</b>  |                          |              |              |
| Earnings per share  | 2.95                     | 3.05         | 3.39         |
| Weighted average number of total shares outstanding (in millions) | 67,091.30                | 68,821.32    | 71,494.60    |
| <b>U.S. GAAP(1)</b>   |                          |              |              |
| Earnings per share on continued operations                        | 2.85                     | 2.77         | 3.24         |
| Earnings per share on discontinued operations                     | (0.09)                   | (0.07)       | (0.01)       |
| Earnings per share  | 2.76                     | 2.70         | 3.23         |
| Weighted average number of total shares outstanding (in millions) | 67,091.30                | 68,821.32    | 71,494.60    |

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- (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.

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

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

*(s) Article 9 Presentation of Income Statements and Balance Sheets*

The presentation of the consolidated financial statements differs 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, 2007 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, 2005, 2006 and 2007 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. Reclassification of fees relating to contingent loans from interest income under Chilean GAAP to other income under Article 9.
3. Elimination of the cash clearing account from cash and due from banks.<sup>(1)</sup>
4. Presentation of forward contracts classified based on the legal right to offset
5. Reclassification of assets under lease from other assets to Bank premises and equipment.
6. Presentation of deferred taxes on net basis.
7. Reclassification of Mutual Fund units from other assets to trading investments
8. Reclassification of the amortization of deferred sales forces fees related with loans origination from fees and income from services to interest and fees on loans

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9. Reclassification of other non-operating income and expenses items to other income and expenses as result of being operational income and expenses for US GAAP purposes.
  
  10. Inclusion of adjustments to U.S. GAAP described in Note 29(q).
- (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 of 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.

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(s) Article 9 Presentation of Income Statements and Balance Sheets (continued)*

The following income statements presented for the years ended December 31, 2005, 2006 and 2007 have been prepared in accordance with U.S. GAAP to disclose the Bank's consolidated income statement related continued operations in accordance with the requirements of Article 9:

| <i>Income Statements<sup>1</sup></i>                                    | Years ended December 31, |                  |                  |
|---|--------------------------|------------------|------------------|
|   | 2005<br>MCh\$            | 2006<br>MCh\$    | 2007<br>MCh\$    |
| <b>INTEREST INCOME:</b>   |                          |                  |                  |
| Interest and fees on loans  | 689,506                  | 756,557          | 1,061,630        |
| Interest on investments   | 48,239                   | 51,518           | 70,632           |
| Interest on deposits with banks   | 4,381                    | 6,763            | 12,186           |
| Interest under agreements to resell                                     | 10,204                   | 13,421           | 18,627           |
| Total interest income   | <b>752,330</b>           | <b>828,259</b>   | <b>1,163,075</b> |
| <b>INTEREST EXPENSE:</b>  |                          |                  |                  |
| Interest on deposits  | (183,667)                | (271,753)        | (422,250)        |
| Interest on investments sold under agreements to purchase               | (10,846)                 | (13,290)         | (14,993)         |
| Interest on short-term debt   | (6,288)                  | (9,522)          | (13,278)         |
| Interest on long-term debt  | (123,909)                | (86,190)         | (159,533)        |
| Interest on other borrowed funds  | (1,833)                  | (1,380)          | (6,620)          |
| Price-level restatement <sup>2</sup>                                    | (12,556)                 | (9,157)          | (37,948)         |
| Total interest expense  | <b>(339,099)</b>         | <b>(391,292)</b> | <b>(654,622)</b> |
| Net interest income   | <b>413,231</b>           | <b>436,967</b>   | <b>508,453</b>   |
| <b>PROVISION FOR LOAN LOSSES</b>  | <b>(26,594)</b>          | <b>(55,950)</b>  | <b>(50,247)</b>  |
| <b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>              | <b>386,637</b>           | <b>381,017</b>   | <b>458,206</b>   |
| <b>OTHER INCOME:</b>  |                          |                  |                  |
| Fees and income from services, net                                      | 123,504                  | 119,512          | 148,935          |
| Brokerage and securities income net gain (losses) on trading activities | (21,818)                 | 36,258           | (26,329)         |
| Net gains (losses) on foreign exchange                                  | 25,659                   | (12,009)         | 17,696           |
| Other income  | 12,359                   | 20,791           | 18,451           |

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|  |                  |                  |                  |
|--|------------------|------------------|------------------|
| Total other income                                       | <b>139,704</b>   | <b>164,552</b>   | <b>158,753</b>   |
| <b>OTHER EXPENSES:</b>                                   |                  |                  |                  |
| Salaries   | (161,182)        | (163,274)        | (184,577)        |
| Net premises and equipment expenses                      | (26,802)         | (30,153)         | (32,957)         |
| Administration expenses                                  | (94,808)         | (109,085)        | (104,456)        |
| Other expenses   | (31,610)         | (31,996)         | (37,848)         |
| Minority interest  |                  | (1)              |                  |
| Total other expenses                                     | <b>(314,402)</b> | <b>(334,509)</b> | <b>(359,838)</b> |
| <b>INCOME BEFORE INCOME TAXES</b>                        | <b>211,939</b>   | <b>211,060</b>   | <b>257,121</b>   |
| <b>INCOME TAXES</b>                                      | <b>(20,775)</b>  | <b>(20,687)</b>  | <b>(25,614)</b>  |
| <b>NET INCOME ON CONTINUED OPERATIONS</b>                | <b>191,164</b>   | <b>190,373</b>   | <b>231,507</b>   |
| <b>NET LOSS ON DISCONTINUED OPERATIONS, NET OF TAXES</b> | <b>(6,033)</b>   | <b>(4,747)</b>   | <b>(492)</b>     |
| <b>NET INCOME FOR THE YEAR</b>                           | <b>185,131</b>   | <b>185,626</b>   | <b>231,015</b>   |

<sup>1</sup> A detailed Income Statement of the deemed discontinued operations is presented in note (p) above.

<sup>2</sup> 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.

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(s) Article 9 Presentation of Income Statements and Balance Sheets (continued)*

The following balance sheets presented as of December 31, 2006 and 2007 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*

|   | <b>As of December 31,</b> |                   |
|---|---------------------------|-------------------|
|   | <b>2006</b>               | <b>2007</b>       |
|   | <b>MCh\$</b>              | <b>MCh\$</b>      |
| <b>ASSETS</b>                               |                           |                   |
| Cash and due from banks                     | 725,609                   | 331,517           |
| Interest bearing deposits in other banks    | 645,713                   | 619,188           |
| Investments under agreements to resell      | 57,259                    | 69,130            |
| Trading investments                         | 821,043                   | 697,897           |
| Subtotal                                    | <b>2,249,624</b>          | <b>1,717,732</b>  |
| Loans                                       | 9,340,299                 | 10,672,464        |
| Unearned income                             | (96,585)                  | (100,037)         |
| Allowance for loan losses                   | (130,276)                 | (133,373)         |
| Loans, net                                  | <b>9,113,438</b>          | <b>10,439,054</b> |
| Premises and equipment, net                 | 215,012                   | 217,746           |
| Goodwill                                    | 642,867                   | 642,867           |
| Group of assets held for sale <sup>1</sup>  | 501,071                   | 412,736           |
| Other assets                                | 506,435                   | 442,428           |
| <b>TOTAL ASSETS</b>                         | <b>13,228,447</b>         | <b>13,872,563</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                           |                   |
| <i>Deposits:</i>                            |                           |                   |
| Non-interest bearing                        | 1,982,500                 | 2,108,194         |
| Interest bearing                            | 6,027,450                 | 6,393,113         |
| Total deposits                              | <b>8,009,950</b>          | <b>8,501,307</b>  |

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|  |                   |                   |
|--|-------------------|-------------------|
| Short-term borrowings                            | 412,448           | 281,548           |
| Investments sold under agreements to repurchase  | 309,554           | 301,979           |
| Group of liabilities held for sale <sup>1</sup>  | 493,744           | 385,080           |
| Other liabilities                                | 495,922           | 406,028           |
| Long-term debt                                   | 1,921,155         | 2,276,999         |
| <b>TOTAL LIABILITIES</b>                         | <b>11,642,773</b> | <b>12,152,941</b> |
| Minority interest                                | 2                 | 1                 |
| Shareholder s equity:                            |                   |                   |
| Common stock                                     | 595,817           | 720,226           |
| Other Shareholders equity                        | 989,855           | 999,395           |
| <b>TOTAL SHAREHOLDERS EQUITY</b>                 | <b>1,585,672</b>  | <b>1,719,621</b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b> | <b>13,228,447</b> | <b>13,872,563</b> |

<sup>1</sup> For a description of the mayor classes of assets and liabilities deemed as held for sale on discontinued operations see note (p) above.

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(s) 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, |                   |
|---|--------------------|-------------------|
|   | 2006               | 2007              |
|   | MCh\$              | MCh\$             |
| Total assets of the Bank under Chilean GAAP       | 13,704,547         | 14,620,510        |
| Elimination of assets offset by liabilities:      |                    |                   |
| Cash clearing account                             | (184,831)          | (177,282)         |
| Contingent loans                                  | (1,061,498)        | (1,267,706)       |
| Reclassification of forward contracts             | 3,605              | (62,226)          |
| Reclassification of deferred taxes                | (22,286)           | (14,625)          |
| U.S. GAAP adjustments, net                        | 788,910            | 773,892           |
| <b>Total assets as per Article 9 presentation</b> | <b>13,228,447</b>  | <b>13,872,563</b> |

*(t) 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, |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | 2005                     | 2006            | 2007            |
|   | MCh\$                    | MCh\$           | MCh\$           |
| Tax expense for the year under Chilean GAAP                 | (23,424)                 | (25,808)        | (27,904)        |
| U.S. GAAP Adjustments:                                      |                          |                 |                 |
| Deferred tax effect of U.S. GAAP adjustments                | 2,649                    | 5,121           | 2,290           |
| <b>Tax expense for the year under U.S. GAAP<sup>1</sup></b> | <b>(20,775)</b>          | <b>(20,687)</b> | <b>(25,614)</b> |

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<sup>1</sup> Tax expense includes contribution from continued and discontinued operations. See note (p) above.

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(t) Income taxes (continued)*

Deferred tax assets (liabilities) are summarized as follows:

|   | Years ended December 31, |               |
|---|--------------------------|---------------|
|   | 2006                     | 2007          |
|   | MCh\$                    | MCh\$         |
| <b>Deferred Tax Assets:</b>   |                          |               |
| Allowance for loan losses   | 23,477                   | 17,578        |
| Obligations with repurchase agreements                                      | 9,581                    | 4,596         |
| Leasing equipment   | 3,591                    | 2,892         |
| Deferred income taxes related to purchase accounting of Banco de A. Edwards | 3,555                    | 3,098         |
| Personnel provisions  | 2,509                    | 2,187         |
| Staff vacations   | 2,176                    | 2,246         |
| Staff severance indemnities   | 2,047                    | 2,161         |
| Accrued interests and readjustments from risky loan portfolio               | 1,570                    | 1,576         |
| Assets at market value  | 901                      | 78            |
| Other adjustments   | 8,152                    | 7,466         |
| <b>Total Deferred Tax Assets</b>  | <b>57,559</b>            | <b>43,878</b> |
| <b>Deferred Tax Liabilities:</b>  |                          |               |
| Deferred income taxes related to push down accounting adjustments           | 21,306                   | 18,821        |
| Investments sold under repurchase agreements                                | 9,570                    | 4,520         |
| Depreciation and price-level restatement of fixed assets                    | 6,433                    | 4,258         |
| Transitory assets   | 3,392                    | 3,536         |
| Other adjustments   | 2,890                    | 2,311         |
| <b>Total Deferred Tax Liabilities</b>                                       | <b>43,591</b>            | <b>33,446</b> |
| <b>NET DEFERRED TAX ASSETS</b>  | <b>13,968</b>            | <b>10,432</b> |

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(t) Income taxes (continued)*

The provision (benefit) 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 pretax income as a result of the following differences:

|  | Years ended December 31, |               |               |
|--|--------------------------|---------------|---------------|
|  | 2005                     | 2006          | 2007          |
|  | MCh\$                    | MCh\$         | MCh\$         |
| Chilean taxes due at the applicable statutory rate (1) | 36,029                   | 35,880        | 43,711        |
| Increase (decrease) in rates resulting from:           |                          |               |               |
| Non-deductible expenses                                | 3,779                    | 5,085         | 5,938         |
| Non-taxable income                                     | (18,786)                 | (19,520)      | (21,755)      |
| Effect on tax and financial equity restatement (2)     | (2,116)                  | (724)         | (2,506)       |
| Other  | 1,869                    | (34)          | 226           |
| <b>At effective tax rate</b>                           | <b>20,775</b>            | <b>20,687</b> | <b>25,614</b> |

(1) The Chilean statutory first category (corporate) income tax rate is 17% for 2005, 2006 and 2007.

(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.

Effective January 1, 2007, the Bank and its subsidiaries adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. The Interpretation prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken within an income tax return. For each tax position, the enterprise must determine whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is then measured to determine the amount of benefit to recognize within the financial statements. No benefits may be recognized for tax positions that do not meet the more likely than not threshold. The benefit to be recognized is the largest amount that is more likely than not to be realized upon ultimate settlement.

The Bank did not record any effect as result of the adoption of the provisions of FIN 48 on the current period nor to retained earnings due to its tax positions did not meet the recognition threshold.



**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(u) 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, 2005, 2006 and 2007:

|  | Year ended December 31, 2007 |                |                |
|--|------------------------------|----------------|----------------|
|  | Before-tax                   | Tax (expense)  | Net-of-tax     |
|  | amount                       | or benefit     | amount         |
|  | MCh\$                        | MCh\$          | MCh\$          |
| Beginning balance  | (3,469)                      | (1,002)        | (4,471)        |
| Price-level restatement (1)                                    | 371                          | (63)           | 308            |
| Unrealized gains on investments available for sale:            |                              |                |                |
| Unrealized gains arising during the period                     |                              |                |                |
| Less: reclassification adjustment for gains included in income | 8                            | (1)            | 7              |
| Net unrealized gains   | 8                            | (1)            | 7              |
| Adjustment for translation differences                         | (2,504)                      |                | (2,504)        |
| <b>Ending balance</b>  | <b>(5,594)</b>               | <b>(1,066)</b> | <b>(6,660)</b> |

|   | Year ended December 31, 2006 |               |            |
|---|------------------------------|---------------|------------|
|   | Before-tax                   | Tax (expense) | Net-of-tax |
|   | amount                       | or benefit    | amount     |
|   | MCh\$                        | MCh\$         | MCh\$      |
| Beginning balance   | (3,925)                      | (984)         | (4,909)    |
| Price-level restatement (1)   | 121                          | (20)          | 101        |
| Unrealized losses on investments available for sale:                |                              |               |            |
| Unrealized losses arising during the period                         | (14)                         | 2             | (12)       |
| Less: reclassification adjustment for losses included in net income |                              |               |            |
| Net unrealized losses   | (14)                         | 2             | (12)       |
| Adjustment for translation differences                              | 349                          |               | 349        |

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**Ending balance** (3,469) (1,002) (4,471)

|   | Year ended December 31, 2005 |                          |                   |
|---|------------------------------|--------------------------|-------------------|
|   | Before-tax amount            | Tax (expense) or benefit | Net-of-tax amount |
|   | MCh\$                        | MCh\$                    | MCh\$             |
| Beginning balance   | (337)                        | (991)                    | (1,328)           |
| Price-level restatement (1)   | 56                           | (10)                     | 46                |
| Unrealized losses on investments available for sale:                |                              |                          |                   |
| Unrealized losses arising during the period                         | (103)                        | 17                       | (86)              |
| Less: reclassification adjustment for losses included in net income |                              |                          |                   |
| Net unrealized losses   | (103)                        | 17                       | (86)              |
| Adjustment for translation differences                              | (3,541)                      |                          | (3,541)           |
| <b>Ending balance</b>   | <b>(3,925)</b>               | <b>(984)</b>             | <b>(4,909)</b>    |

- (1) Reflects the effect of inflation on the comprehensive income at the beginning of each period, adjusted to constant pesos of December 31, 2007.

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**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

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

*(v) 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 five 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. As required by SFAS 131, figures for years before 2007 have been restated for comparative purpose according to the current operating segments and internal reporting policies in which the Bank measures its business segments during 2007. The internally reported segments are as follows:

*Wholesale Market,*

The Wholesale market business segment serves the needs of corporate customers with annual sales in excess of Ch\$1,200 million that are engaged in a wide spectrum of industry sectors. Services provided include depositing and lending in both Chilean pesos and foreign currency, trade and project financing, working capital financing, leasing, factoring, foreign trade financing, lines of credit, commercial mortgage loans and various non-credit services, such as financial consultancy, collections, supplier payments, payroll management and a wide array of treasury and risk management products, as well as electronic banking services.

*Retail Market,*

The Retail market business segment serves the financial needs of individuals and middle-market companies (with annual sales of up to Ch\$1,200 million) through the Bank's branches network. The principal financial services offered include credit cards, debit cards, residential mortgage loans, consumer loans, commercial loans, leasing loans, as well as deposit services such as checking and savings accounts and time deposits.

*International Banking,*

The International Banking segment includes international services, principally import and export financing, letters of credit, guarantees and other forms of credit support, cross border payments, foreign currency exchange and currency swaps. In addition, as of December 2007, this segment included services offered through the Bank's New York and Miami branches and its representative offices in São Paulo, Mexico City and Beijing and a worldwide network of correspondent banks. As mentioned in notes above, the Miami and New York offices have been deemed as Discontinued Operations.

*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

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monitoring compliance with regulatory deposit limits, technical reserves and maturity and rate matches.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

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

*(v) Segment information (continued)*

*Subsidiaries,*

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

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

The net interest margin of loans and deposits is measured on an individual transaction and individual client basis, stemming from the difference between the effective customer rate and the related Bank's fund transfer price in terms of maturity, re-pricing and currency.

The results associated with the gap management (interest rate mismatches) have been allocated amongst different segments in accordance with the amount of long-term loans in each segment.

The performance of the business segments, measured by an internal profitability system considers results that are directly related to performance and not to overhead expenses of corporate and support departments, additional allowances (previously referred to as voluntary allowances under guidelines prior to 2004), taxes and other non-operating income and expenses.

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.

In addition to direct costs (consisting mainly of labor and administrative expenses), the Bank allocates the majority of its indirect operating costs to each business area, whenever there is a clearly defined business driver that links such costs to the business area. The following tables show the results of the Bank by operating segments for the three years ended December 31, 2007:

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|                                | Year ended December 31, 2007 (1) |                           |                   |                                   |                       |                    |                | Total<br>MCh\$ |
|--------------------------------|----------------------------------|---------------------------|-------------------|-----------------------------------|-----------------------|--------------------|----------------|----------------|
|                                | Wholesale<br>Market<br>MCh\$     | Retail<br>Market<br>MCh\$ | Treasury<br>MCh\$ | International<br>Banking<br>MCh\$ | Subsidiaries<br>MCh\$ | Other (2)<br>MCh\$ |                |                |
| Operating Revenues             | 163,804                          | 398,732                   | 28,645            | 11,188                            | 95,997                | (6,758)            | 691,608        |                |
| Provisions                     | 2,175                            | (55,199)                  |                   | 508                               | (265)                 | 162                | (52,619)       |                |
| Operating Expenses             | (48,307)                         | (162,896)                 | (3,394)           | (13,622)                          | (57,208)              | (47,986)           | (333,413)      |                |
| Other income and expenses      | (22,968)                         | (11,869)                  | (1,216)           | (492)                             | (6,752)               | 6,929              | (36,368)       |                |
| <b>Net income before taxes</b> | <b>94,704</b>                    | <b>168,768</b>            | <b>24,035</b>     | <b>(2,418)</b>                    | <b>31,772</b>         | <b>(47,653)</b>    | <b>269,208</b> |                |

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(v) Segment information (continued)*

|                                | Year ended December 31, 2006 (1) |                           |                   |                                   |                       |                    |                |
|--------------------------------|----------------------------------|---------------------------|-------------------|-----------------------------------|-----------------------|--------------------|----------------|
|                                | Wholesale<br>Market<br>MCh\$     | Retail<br>Market<br>MCh\$ | Treasury<br>MCh\$ | International<br>Banking<br>MCh\$ | Subsidiaries<br>MCh\$ | Other (2)<br>MCh\$ | Total<br>MCh\$ |
| Operating Revenues             | 137,010                          | 339,323                   | 24,355            | 16,106                            | 77,159                | 8,378              | 602,331        |
| Provisions                     | 6,222                            | (45,451)                  |                   | (97)                              | (1,196)               | 1,613              | (38,909)       |
| Operating Expenses             | (50,370)                         | (156,325)                 | (3,811)           | (22,872)                          | (44,513)              | (44,885)           | (322,776)      |
| Other income and expenses      | (7,059)                          | (3,570)                   | (21)              | (325)                             | (1,541)               | 7,445              | (5,071)        |
| <b>Net income before taxes</b> | <b>85,803</b>                    | <b>133,977</b>            | <b>20,523</b>     | <b>(7,188)</b>                    | <b>29,909</b>         | <b>(27,449)</b>    | <b>235,575</b> |

|                                | Year ended December 31, 2005 (1) |                           |                   |                                   |                       |                    |                |
|--------------------------------|----------------------------------|---------------------------|-------------------|-----------------------------------|-----------------------|--------------------|----------------|
|                                | Wholesale<br>Market<br>MCh\$     | Retail<br>Market<br>MCh\$ | Treasury<br>MCh\$ | International<br>Banking<br>MCh\$ | Subsidiaries<br>MCh\$ | Other (2)<br>MCh\$ | Total<br>MCh\$ |
| Operating Revenues             | 133,274                          | 310,223                   | 20,649            | 15,251                            | 76,840                | 12,145             | 568,382        |
| Provisions                     | 11,078                           | (33,880)                  |                   | 890                               | (1,044)               | (1,199)            | (24,155)       |
| Operating Expenses             | (52,260)                         | (148,726)                 | (2,951)           | (22,578)                          | (44,473)              | (32,223)           | (303,211)      |
| Other income and expenses      | (17,478)                         | (4,317)                   | (427)             | (171)                             | (2,240)               | 5,247              | (19,386)       |
| <b>Net income before taxes</b> | <b>74,614</b>                    | <b>123,300</b>            | <b>17,271</b>     | <b>(6,608)</b>                    | <b>29,083</b>         | <b>(16,030)</b>    | <b>221,630</b> |

- (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.

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(v) 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 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, |           |           |
|------------------------------------|--------------------|-----------|-----------|
|                                    | 2005               | 2006      | 2007      |
|                                    | MCh\$              | MCh\$     | MCh\$     |
| <b>Total Interest Revenues</b>     |                    |           |           |
| Republic of Chile                  | 728,856            | 808,998   | 1,147,833 |
| U.S.A.                             | 20,565             | 26,202    | 22,265    |
| Hong Kong                          |                    |           |           |
| <b>Total Net Income</b>            |                    |           |           |
| Republic of Chile                  | 204,061            | 214,234   | 242,643   |
| U.S.A.                             | (6,033)            | (4,747)   | (492)     |
| Hong Kong                          | 146                | 209       | 137       |
| <b>Mortgage Loans</b>              |                    |           |           |
| Republic of Chile                  | 735,072            | 624,228   | 471,509   |
| U.S.A.                             |                    |           |           |
| Hong Kong                          |                    |           |           |
| <b>Commercial Loans</b>            |                    |           |           |
| Republic of Chile                  | 3,799,257          | 4,228,840 | 4,944,615 |
| U.S.A.                             | 50,637             | 35,916    | 37,162    |
| Hong Kong                          |                    |           |           |
| <b>Income Taxes</b>                |                    |           |           |
| Republic of Chile                  | (23,393)           | (25,765)  | (27,871)  |
| U.S.A.                             | (32)               | (71)      | 984       |
| Hong Kong                          | (31)               | (43)      | (33)      |
| <b>Bank Premises and equipment</b> |                    |           |           |
| Republic of Chile                  | 153,766            | 160,429   | 168,704   |

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|                     |            |            |            |
|---------------------|------------|------------|------------|
| U.S.A.              | 2,438      | 2,472      | 460        |
| Hong Kong           |            |            |            |
| <b>Total Assets</b> |            |            |            |
| Republic of Chile   | 11,112,886 | 13,199,853 | 14,207,399 |
| U.S.A.              | 607,708    | 504,674    | 413,063    |
| Hong Kong           | 14         | 20         | 48         |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

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

*(w) 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.

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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.

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(w) 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,          |                                  |                             |                                  |
|--|-----------------------------|----------------------------------|-----------------------------|----------------------------------|
|  | 2006                        |                                  | 2007                        |                                  |
|  | Carrying<br>Amount<br>MCh\$ | Estimated<br>fair value<br>MCh\$ | Carrying<br>Amount<br>MCh\$ | Estimated<br>fair value<br>MCh\$ |
| <b>ASSETS</b>  |                             |                                  |                             |                                  |
| Cash and due from banks  | 725,609                     | 725,609                          | 331,517                     | 331,517                          |
| Interest bearing deposits in other banks                         | 645,713                     | 645,713                          | 619,188                     | 619,188                          |
| Term federal funds   |                             |                                  |                             |                                  |
| Accounts receivable under spot foreign exchange transactions (1) | 151,998                     | 151,998                          | 82,532                      | 82,532                           |
| Financial investments  | 878,302                     | 878,302                          | 767,027                     | 767,027                          |
| Loans, net (2)   | 9,113,438                   | 9,670,721                        | 10,439,054                  | 11,164,117                       |
| Derivative instruments   | 56,303                      | 56,303                           | 19,151                      | 19,151                           |
| <b>LIABILITIES</b>   |                             |                                  |                             |                                  |
| Deposits   | 8,009,950                   | 9,889,920                        | 8,501,307                   | 10,596,538                       |
| Accounts payable under spot foreign exchange transactions (1)    | 72,273                      | 72,273                           | 60,297                      | 60,297                           |
| Investments sold under agreements to repurchase                  | 309,554                     | 309,554                          | 301,979                     | 301,979                          |
| Short term and long term borrowings                              | 2,333,603                   | 2,957,170                        | 2,558,547                   | 2,905,501                        |
| Derivative instruments   | 78,279                      | 78,279                           | 57,936                      | 57,936                           |

(1) Included under the captions other assets and other liabilities.

(2) The carrying amounts of loans in the above table excludes contingent loans since they represent undisbursed amounts under undrawn letters of credit and other credit guarantees granted by the Bank.

*(x) Investments in other companies*

As of December 31, 2005, 2006 and 2007, 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,

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|   | 2005                |                           | 2006                |                           | 2007                |                           | Ownership<br>Interest<br>2007<br>% |
|---|---------------------|---------------------------|---------------------|---------------------------|---------------------|---------------------------|------------------------------------|
|   | Investment<br>MCh\$ | Income<br>(Loss)<br>MCh\$ | Investment<br>MCh\$ | Income<br>(Loss)<br>MCh\$ | Investment<br>MCh\$ | Income<br>(Loss)<br>MCh\$ |                                    |
| Servipag Ltda.  | 1,350               | 231                       | 1,625               | 276                       | 1,962               | 337                       | 50.00                              |
| Soc. Operadora de Tarjetas de Crédito Nexus S.A                               | 1,254               | 200                       | 1,309               | 254                       | 1,208               | 234                       | 25.81                              |
| Administrador Financiero Transantiago S.A.                                    | 1,393               | 75                        | 1,286               | (102)                     |                     | (3,326)                   | 20.00                              |
| Redbanc S.A.  | 1,000               | 153                       | 1,013               | 164                       | 1,001               | 152                       | 25.42                              |
| Centro de Compensación Automatizado S.A.                                      |                     |                           |                     |                           |                     |                           |                                    |
| (CCA S.A.)  | 233                 | 38                        | 258                 | 43                        | 275                 | 37                        | 33.33                              |
| Artikos Chile S.A.  | 129                 | (201)                     | 176                 | 47                        | 231                 | 54                        | 50.00                              |
| Total investments in other companies accounted for under<br>the equity method | 5,359               | 496                       | 5,667               | 682                       | 4,677               | (2,512)                   |                                    |
| Other investments carried at cost   | 3,199               | 139                       | 3,191               | 313                       | 3,196               | 385                       |                                    |
| <b>Total investments in other companies</b>                                   | <b>8,558</b>        | <b>635</b>                | <b>8,858</b>        | <b>995</b>                | <b>7,873</b>        | <b>(2,127)</b>            |                                    |

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(Restated for general price - level changes and expressed in millions of constant

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**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(y) Bank premises and equipment, net*

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

|   | As of December 31, |                |
|---|--------------------|----------------|
|   | 2006               | 2007           |
|   | MCh\$              | MCh\$          |
| Land and buildings                      | 115,640            | 114,216        |
| Machinery and equipment                 | 49,595             | 59,030         |
| Assets under lease                      | 43,190             | 37,917         |
| Furniture                               | 3,175              | 2,771          |
| Other assets                            | 2,509              | 2,798          |
| Vehicles                                | 903                | 1,014          |
| <b>Bank premises and equipment, net</b> | <b>215,012</b>     | <b>217,746</b> |

In accordance with rules of the Superintendency of Banks, bank premises and equipment are presented net of accumulated depreciation. The accumulated depreciation at the end of December 31, 2006 and 2007 corresponds to MCh\$117,175 and MCh\$127,504, respectively. The expense recorded at the end of 2005, 2006 and 2007 was Ch\$18,560, Ch\$16,586 and Ch\$16,926 in the same order.

*(z) Other assets and other liabilities**(1) Other assets*

|  | As of December 31, |         |
|--|--------------------|---------|
|  | 2006               | 2007    |
|  | MCh\$              | MCh\$   |
| Intangibles  | 127,514            | 110,754 |
| Amounts receivable under spot foreign exchange transaction | 151,998            | 82,532  |
| Derivative instruments                                     | 56,303             | 19,151  |
| Payments from counterparties to be settled                 | 39,487             | 44,115  |
| Intangibles (software and licenses for trademark use)      | 22,685             | 25,265  |
| Assets received in lieu of payment                         | 18,786             | 8,545   |
| Deferred fees  | 15,272             | 17,105  |
| Deferred income tax assets, net                            | 13,968             | 10,432  |
| Transactions in process                                    | 8,840              | 9,763   |
| Investments in other companies                             | 8,858              | 7,873   |

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|   |                |                |
|---|----------------|----------------|
| Notes receivable  |                | 48,686         |
| VAT fiscal credit   | 6,476          | 5,764          |
| Recoverable taxes   | 5,280          | 1,849          |
| Assets to be securitized  | 5,220          | 6,331          |
| Accounts receivable for assets received in lieu of payment sold | 2,480          | 3,009          |
| Prepaid expenses  | 1,992          | 1,783          |
| Additional consideration paid in the purchase of mortgage bonds | 1,235          | 1,042          |
| Materials and supplies  | 687            | 638            |
| Imports on their own accounts                                   | 1,987          | 15,693         |
| Other   | 17,367         | 22,098         |
| <b>Total other assets</b>                                       | <b>506,435</b> | <b>442,428</b> |

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(z) Other assets and other liabilities (continued)**(2) Other liabilities*

|  | As of December 31, |                |
|--|--------------------|----------------|
|  | 2006               | 2007           |
|  | MCh\$              | MCh\$          |
| Accounts payable   | 167,706            | 110,230        |
| Amounts payable under spot foreign exchange transaction          | 72,273             | 60,297         |
| Derivative instruments, net                                      | 78,279             | 57,936         |
| Provision for minimum dividend                                   | 62,908             | 72,686         |
| Payments to counterparties to be settled                         | 47,905             | 10,451         |
| Notes payable  |                    | 22,024         |
| Accrued staff vacation expense                                   | 13,138             | 13,622         |
| Transactions in process  | 8,312              | 11,656         |
| Unearned interest on leasing transactions                        | 6,942              | 6,924          |
| Provision for staff severance indemnities and personnel expenses | 12,892             | 12,984         |
| VAT payable  | 6,370              | 6,617          |
| Administration and credit card contract provision                | 5,907              | 6,727          |
| Deferred fees  | 3,989              | 3,089          |
| Legal contingencies provision                                    | 1,489              | 1,019          |
| Other  | 7,812              | 9,766          |
| <b>Total other liabilities</b>                                   | <b>495,922</b>     | <b>406,028</b> |

*(3) 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.

| As of December 31, 2006 |                 | As of December 31, 2007 |                 |
|-------------------------|-----------------|-------------------------|-----------------|
| Book value              | Contract amount | Book value              | Contract amount |
| MCh\$                   | MCh\$           | MCh\$                   | MCh\$           |

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|                            |              |                |              |                  |
|----------------------------|--------------|----------------|--------------|------------------|
| Performance bonds          | 3,371        | 731,853        | 4,211        | 898,321          |
| Foreign office guarantees  | 12           | 41,958         | 75           | 48,685           |
| Standby letters of credits | 139          | 28,292         | 204          | 103,058          |
| <b>Total</b>               | <b>3,522</b> | <b>802,103</b> | <b>4,490</b> | <b>1,050,064</b> |

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 as a remedy. Credit risk arises from the possibility that the customer may not be able to repay the Bank for performance bonds. 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.

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(z) Other assets and other liabilities (continued)*

The expiration of guarantees, per period is as follows:

|                            | Due within<br>1 year<br>MCh\$ | Due after<br>1 year but<br>within<br>3 year<br>MCh\$ | Due after<br>3 years but<br>within<br>5 years<br>MCh\$ | Due after<br>5 years<br>MCh\$ | Total<br>MCh\$   |
|----------------------------|-------------------------------|--|--|-------------------------------|------------------|
| Performance bonds          | 517,934                       | 362,074  | 16,512   | 1,801                         | 898,321          |
| Foreign office guarantees  | 48,685                        |  |  |                               | 48,685           |
| Standby letters of credits | 43,658                        | 42,928   | 16,316   | 156                           | 103,058          |
| <b>Total</b>               | <b>610,277</b>                | <b>405,002</b>                                       | <b>32,828</b>  | <b>1,957</b>                  | <b>1,050,064</b> |

*(aa) 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, 2006 |                     |                | As of December 31, 2007 |                     |                |
|--|-------------------------|---------------------|----------------|-------------------------|---------------------|----------------|
|  | Long-term<br>MCh\$      | Short-term<br>MCh\$ | Total<br>MCh\$ | Long-term<br>MCh\$      | Short-term<br>MCh\$ | Total<br>MCh\$ |
| Foreign borrowings                                   | 342,792                 | 292,327             | 635,119        | 628,887                 | 153,981             | 782,868        |
| Bonds  | 595,288                 |                     | 595,288        | 772,801                 |                     | 772,801        |
| Mortgage finance bonds                               | 543,149                 |                     | 543,149        | 423,533                 |                     | 423,533        |
| Subordinated bonds                                   | 435,982                 |                     | 435,982        | 446,395                 |                     | 446,395        |
| Investments under agreements to repurchase           |                         | 309,554             | 309,554        |                         | 301,979             | 301,979        |
| Borrowings from domestic financial institutions      |                         | 94,792              | 94,792         |                         | 73,947              | 73,947         |
| Other obligations                                    | 3,059                   | 25,329              | 28,388         | 4,870                   | 53,620              | 58,490         |
| Central Bank Credit lines for renegotiation of loans | 885                     |                     | 885            | 513                     |                     | 513            |

|   |                  |                |                  |                  |                |                  |
|---|------------------|----------------|------------------|------------------|----------------|------------------|
| <b>Total other interest bearing liabilities</b> | <b>1,921,155</b> | <b>722,002</b> | <b>2,643,157</b> | <b>2,276,999</b> | <b>583,527</b> | <b>2,860,526</b> |
|---|------------------|----------------|------------------|------------------|----------------|------------------|

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2007)****29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(aa) Other Interest Bearing Liabilities (continued)**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 4.04% as of December 31, 2007.

The maturities of outstanding mortgage bond amounts as of December 31, 2007 are as follows:

|                                      | <b>As of<br/>December 31,<br/>2007<br/>MCh\$</b> |
|--------------------------------------|--|
| Due within 1 year                    | 59,948   |
| Due after 1 year but within 2 years  | 44,876   |
| Due after 2 years but within 3 years | 43,623   |
| Due after 3 years but within 4 years | 41,335   |
| Due after 4 years but within 5 years | 37,839   |
| Due after 5 years                    | 195,912  |
| <b>Total mortgage finance bonds</b>  | <b>423,533</b>                                   |

*(ab) Shareholders' Equity*

The Bank's paid-in capital consists of 71,996,083,216 authorized shares with no fixed nominal value, issued and outstanding as of December 31, 2007. Dividends related to the year ended December 31, 2005 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 shareholders based on prior year net income determined under Chilean GAAP for the years ended December 31, 2005, 2006 and 2007 (presented in constant Chilean pesos as of December 31, 2007) are as follows:

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|                     | Paid during the year ended<br>December 31, |         |         |
|---------------------|--|---------|---------|
|                     | 2005                                       | 2006    | 2007    |
|                     | MCh\$                                      | MCh\$   | MCh\$   |
| Dividends           | 173,891                                    | 164,629 | 172,644 |
| Dividends per share | 2.63                                       | 2.42    | 2.51    |

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(ac) 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, 2005, 2006 and 2007 are summarized as follows:

|  | Years ended December 31, |                   |                 |                   |                 |                   |
|--|--------------------------|-------------------|-----------------|-------------------|-----------------|-------------------|
|  | 2005                     |                   | 2006            |                   | 2007            |                   |
|  | Income<br>MCh\$          | Expenses<br>MCh\$ | Income<br>MCh\$ | Expenses<br>MCh\$ | Income<br>MCh\$ | Expenses<br>MCh\$ |
| <b>Fees and income from services</b>                                 |                          |                   |                 |                   |                 |                   |
| Mutual funds management  | 27,164                   | (2,507)           | 27,357          | (2,514)           | 34,905          | (3,730)           |
| Sight accounts and ATMs  | 24,568                   | (10,198)          | 26,411          | (10,856)          | 28,849          | (10,463)          |
| Insurance  | 22,102                   | (172)             | 26,237          | (216)             | 29,984          | (267)             |
| Stock brokerage  | 16,591                   | (34)              | 11,950          | (672)             | 16,388          | (564)             |
| Cash management services   | 10,520                   | (252)             | 11,670          | (101)             | 11,431          | (62)              |
| Credit cards   |                          |                   |                 |                   |                 |                   |
| Collection of overdue loans  | 9,492                    |                   | 10,614          |                   | 10,955          |                   |
| Credit lines   | 7,974                    |                   | 8,676           |                   | 7,580           |                   |
| Demand deposits  | 6,400                    |                   | 7,220           |                   | 8,983           |                   |
| Overdrafts   |                          |                   |                 |                   |                 |                   |
| Contingent fees  | 4,769                    |                   | 5,330           |                   | 5,784           |                   |
| Credit   | 10,487                   |                   | 4,905           |                   | 5,668           |                   |
| Foreign trade and currency exchange                                  | 3,659                    |                   | 4,304           |                   | 3,940           |                   |
| Income and revenue from assets received in lieu of payment           | 5,562                    | (1,703)           | 4,016           | (1,513)           | 1,407           | (1,145)           |
| Financial advisory services  | 1,012                    |                   | 3,054           |                   | 1,211           |                   |
| Letters of credit guarantees, collaterals and other contingent loans | 557                      |                   | 269             |                   | 918             |                   |
| Custody and trust services   | 1,907                    |                   | 2,218           |                   | 2,362           |                   |
| Collection services  | 2,481                    |                   | 1,940           |                   | 1,559           |                   |
| Leasing  | 1,743                    | (336)             | 1,576           | (214)             | 460             | (252)             |
| Factoring  | 678                      | (9)               | 933             | (7)               | 1,040           | (5)               |
| Teller services expenses   |                          | (4,343)           |                 | (4,947)           |                 | (5,273)           |
| Cobranding   |                          | (6,379)           |                 | (7,493)           |                 | (6,694)           |
| Fees from sales force  |                          | (10,748)          |                 | (14,342)          |                 | (2,531)           |
| Other  | 4,087                    | (1,568)           | 5,859           | (2,152)           | 8,146           | (1,649)           |
| <b>Total</b>   | <b>161,753</b>           | <b>(38,249)</b>   | <b>164,539</b>  | <b>(45,027)</b>   | <b>181,570</b>  | <b>(32,635)</b>   |

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(ad) Other income and expense*

|   | Years ended December 31, |                   |                 |                   |                 |                   |
|---|--------------------------|-------------------|-----------------|-------------------|-----------------|-------------------|
|   | 2005                     |                   | 2006            |                   | 2007            |                   |
|   | Income<br>MCh\$          | Expenses<br>MCh\$ | Income<br>MCh\$ | Expenses<br>MCh\$ | Income<br>MCh\$ | Expenses<br>MCh\$ |
| <b>Other income and expenses</b>                                    |                          |                   |                 |                   |                 |                   |
| Gains on sales of assets received in lieu of payment                | 4,809                    |                   | 10,248          |                   | 13,722          |                   |
| Prior year tax differences  |                          |                   | 3,591           |                   | 72              |                   |
| Rental income   | 2,580                    |                   | 2,573           |                   | 2,542           |                   |
| Assets received in lieu of payment                                  | 3,105                    |                   | 1,761           |                   |                 | (3,981)           |
| Income (losses) attributable to investments in other companies, net | 635                      |                   | 995             |                   |                 | (2,127)           |
| Gains from sale of shares   |                          |                   | 480             |                   |                 |                   |
| Recoveries of expenses  | 323                      |                   | 277             |                   | 411             |                   |
| Fair Value Other  |                          | (380)             | 237             |                   |                 |                   |
| Foreign trade income  | 144                      |                   | 56              |                   | 31              |                   |
| Income from sale of fixed assets                                    | 134                      |                   | 77              |                   | 468             |                   |
| Dividends received  | 100                      |                   | 59              |                   | 45              |                   |
| Leasing income  | 61                       |                   | 6               |                   | 10              |                   |
| Indemnity of sinesters  | 5                        |                   |                 |                   | 510             |                   |
| Amortization of intangibles   |                          | (15,034)          |                 | (17,192)          |                 | (16,760)          |
| Charge-offs assets received in lieu of payment                      |                          | (11,871)          |                 | (11,237)          |                 | (10,987)          |
| Charge-offs   |                          | (1,408)           |                 | (1,454)           |                 | (2,163)           |
| Write-offs for frauds   |                          | (598)             |                 | (599)             |                 | (237)             |
| Legal contingencies provision                                       |                          | (21)              |                 | (577)             |                 | (40)              |
| Expenses on charge-offs for leasing                                 |                          | (394)             |                 | (214)             |                 | (1)               |
| Advertising expenses  |                          | (68)              |                 | (76)              |                 | (28)              |
| Charge-offs and provisions related to fixed assets                  |                          | (27)              |                 | (12)              |                 | (14)              |
| Provision for recovered leased assets                               |                          | (1,164)           |                 | (16)              |                 | (163)             |
| Reversal of adjustments and interest from previous years            |                          | (53)              |                 | (216)             |                 | (64)              |
| Other   | 463                      | (592)             | 431             | (403)             | 640             | (1,283)           |
| <b>Total</b>  | <b>12,359</b>            | <b>(31,610)</b>   | <b>20,791</b>   | <b>(31,996)</b>   | <b>18,451</b>   | <b>(37,848)</b>   |

*(ae) Business Combination***Merge with Citibank Chile**

On December 26, 2007, we entered into a Merger Agreement with Citibank Chile whereby we acquired all of the assets and assumed all of the liabilities of Citibank Chile. As part of the merger agreement, Citibank Chile will hold 10.497% and Banco de Chile the remaining 89.503% of

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the merged entity. As consideration for the acquired net assets of Citibank Chile and as a result of the Extraordinary Shareholders Meeting held on December 27, 2007, we issued and exchange a total of 8,443,861,140 no-par Banco de Chile S-Series shares, in proportion to the number of shares held by such holders. After this stock swap, 10.44% of the post-merger entity corresponds to Citibank Chile and the remaining 89.56% corresponds to Banco de Chile.

On December 27, 2007, the shareholders approved (i) the merger with Citibank Chile, which became effective on January 1, 2008, (ii) the sale of our Miami and New York branches to Citibank, N.A. and (iii) a capital increase in the amount of Ch\$297,324,899,039, which was contributed and paid for as consideration for the acquisition of the all of the assets and liabilities of Citibank Chile.

The purchase price paid was UF 19,709,970.26 equivalent to ThUS\$ 780,045 (approx.) The fair value analysis and the corresponding purchase price allocation is currently in progress. Accordingly, we are currently unable to provide any other information required by SFAS 141.

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2007)

**29. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(ae) Business Combination****Merge with Citibank Chile***

The following is a summary of the balances of the acquired assets and assumed liabilities as of December 31, 2007. This information is just for reference, is prepared under Chilean GAAP and the US dollar column has been included just for the convenience of the reader and it does not represent a translation into US Dollar as required by SFAS 52.

|  | As of December 31,<br>2007      2007 |                  |
|--|--------------------------------------|------------------|
|  | MCh\$                                | ThUS\$           |
|  | (Unaudited)                          |                  |
| <b>ASSETS</b>                          |                                      |                  |
| Cash and due from banks                | 285,583                              | 575,981          |
| Financial investments                  | 330,997                              | 667,575          |
| Derivatives instruments                | 323,526                              | 652,507          |
| Loans, net                             | 1,091,234                            | 2,200,867        |
| Premises and equipment, net            | 30,606                               | 61,728           |
| Other assets                           | 56,901                               | 114,761          |
| <b>TOTAL ASSETS</b>                    | <b>2,118,847</b>                     | <b>4,273,419</b> |
| <b>LIABILITIES</b>                     |                                      |                  |
| <i>Deposits:</i>                       |                                      |                  |
| Non-interest bearing                   | 629,744                              | 1,270,106        |
| Interest bearing                       | 788,533                              | 1,590,361        |
| <b>Total deposits</b>                  | <b>1,418,277</b>                     | <b>2,860,467</b> |
| Borrowings from financial institutions | 7,627                                | 15,383           |
| Derivatives instruments                | 318,533                              | 642,437          |
| Other liabilities                      | 52,742                               | 106,374          |
| <b>TOTAL LIABILITIES</b>               | <b>1,797,179</b>                     | <b>3,624,661</b> |

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

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

*(ae) Recent accounting pronouncements*

In September 2006, the FASB issued SFAS No. 157 ( SFAS 157 ), Fair Value Measurements. SFAS 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Management does not expect the adoption of SFAS 157 will have a material impact on the consolidated financial statements.

In February 2007, the Financial Accounting Standard Board ( FASB ) issued SFAS No. 159 ( SFAS 159 ), The Fair Value Option for Financial Assets and Financial Liabilities , effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. SFAS 159 permits entities to choose to measure financial assets and liabilities at fair value. The election to measure a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between carrying value and fair value at the election date is recorded as a transition adjustment to opening retained earnings. Subsequent changes in fair value are recognized in earnings. The Bank is currently assessing the impact that the adoption of the standard will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements ( SFAS No. 160 ). SFAS No. 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements , to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 defines a noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent . The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. It shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially adopted, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. Management is evaluating the impact, if any, of the adoption of SFAS No. 160.

In December 2007, the FASB issued FASB Statement No. 141(R), Business Combinations ( SFAS141(R) ). SFAS141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination.

SFAS141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. SFAS141(R) applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including combinations achieved without the transfer of consideration. Management is evaluating the potential impact of adopting SFAS141(R) on the Bank's financial statements, if any.

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

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

*(ae) Recent accounting pronouncements (continued)*

In March 2008, the FASB issued FASB statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB statement No. 133 (SFAS161). SFAS161 applies to all derivative instruments and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS133 and related hedged items accounted for under SFAS133. SFAS161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. SFAS161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Comparative disclosures for earlier periods at initial adoption are encouraged but not required. Management does not expect the adoption of SFAS161 to have a material impact on the Bank's financial statements.

In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS162). SFAS162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. SFAS162 is effective 60 days following the United States Securities and Exchange Commission (SEC's) approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. Management does not expect the adoption of SFAS162 to have a material impact on the Banks' financial statements.

**30. Subsequent Events**

(a) On January 1, 2008, the merger of Banco de Chile and Citibank Chile became effective, with the former assuming the assets and liabilities of the latter. Consequently, as of that date, Banco de Chile is the legal successor of Citibank Chile.

(b) As stated in Note 18 (b) on January 3, 2008, the sale of the almost all the assets and liabilities belongs to New York and Miami branches became effective on January 1, 2008.

(c) The Ordinary Board of Directors Meeting of Banco de Chile held on January 8, 2008 accepted the resignation presented by Director Mr. Rodrigo Manubens Moltedo and Deputy Directors Messrs. Thomas Fürst Freiwirth and Jorge Ergas Heymann.

Likewise, the Board appointed Mr. Raúl Anaya Elizalde as Director, Mr. Rodrigo Manubens Moltedo as First Deputy Director and Mr. Thomas Fürst Freiwirth as Second Deputy Director until the next Ordinary General Shareholders Meeting.

In addition Mr. Jorge Ergas Heymann was appointed Board advisor.



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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2007)**

**30. Subsequent Events (continued)**

(d) On January 8, 2008 the Superintendency of Banks and Financial Institutions approved the agreed upon merger of Banco de Chile with Banco Citibank Chile, through the contribution of the assets of the former to Banco de Chile, who assumed all its liabilities.

(e) As of December 31, 2007, Administrador Financiero de Transantiago S.A. has an operating deficit that has required and could required in the future extraordinary financial support. Banco de Chile has a 20% share participation on this company, and has made extraordinary contributions of approximately MCh\$2,040 which were capitalized in December 2007.

During January 2008, Banco de Chile made an additional contribution of MCh\$103.

As of January 2008, the company is in the process of renegotiating the Financial Management Contract with the Ministry of Transportation and Telecommunications.

(f) On January 24, 2008, Banco de Chile jointly with its subsidiary Banchile Asesoría Financiera S.A. signed a contract with Legg Mason (Chile) Inversiones Limitada and Legg Mason International Holdings (Chile) LLC. to purchase all the shares of Legg Mason (Chile) Administradora General de Fondos S.A. by which Banco de Chile acquired 148,793 shares and Banchile Asesoría Financiera S.A. 1 share. The full purchase price for the shares was thirteen million United States dollars that will be paid once the purchase is completed as expressed in the following paragraph.

The purchase should be completed within 7 business days after receiving the authorization from the Superintendency of Banks and Financial Institutions as requested in the letter dated December 26, 2007. This condition should be met within 90 days from the aforementioned date.

(g) In Management's opinion there are no other significant subsequent events between December 31, 2007 and the date of issuance of these consolidated financial statements that affect or could affect the financial statements of the Bank.