

BANK OF CHILE  
Form 20-F  
June 29, 2007  
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As filed with the Securities and Exchange Commission on June 29, 2007

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**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, 2006

Commission file number 001-15266

**BANCO DE CHILE**

(Exact name of Registrant as specified in its charter)

**BANK OF CHILE**

(Translation of Registrant's name into English)

**REPUBLIC OF CHILE**

(Jurisdiction of incorporation or organization)

**Banco de Chile**

**Ahumada 251**

**Santiago, Chile**

**(562) 637-1111**

(Address of principal executive offices)

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

Title of each class

Name of each exchange on which registered

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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: 69,037,564,665

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 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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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 28 to our audited consolidated financial statements contained elsewhere in this annual report for a description of the material differences between Chilean GAAP and U.S. GAAP, as they relate to us and our consolidated subsidiaries, and a reconciliation to U.S. GAAP of net income and shareholders' equity.

Pursuant to Chilean GAAP, unless otherwise indicated, financial data for all full-year periods through December 31, 2006 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, 2006.

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, 2006, one UF equaled U.S.\$34.31 and Ch\$18,336.38. 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 29, 2006 (the latest practicable date, as December 30 and 31, 2006 were banking holidays in Chile). The observed exchange rate on June 22, 2007 was Ch\$525.41 = U.S.\$1.00. The rate reported by the Central Bank is based on the rate for the prior business day in Chile and is the exchange rate specified by the Chilean Superintendency of Banks for use by Chilean banks in the preparation of their financial statements. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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

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

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

**MACRO-ECONOMIC AND MARKET DATA**

In this annual report, all macro-economic data relating to the Chilean economy is based on information published by the Central Bank. All market share and other data relating to the Chilean financial system as well as data on average return on shareholders' equity are based on information published by the Chilean Superintendency of Banks. Information regarding the consolidated risk index of the Chilean financial system as a whole is not available. Prior to January 1, 2004, the Chilean Superintendency of Banks published the unconsolidated risk index for

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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.

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**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**  
Not Applicable.

**Item 2. Offer Statistics and Expected Timetable**  
Not Applicable.

**Table of Contents****Item 3. Key Information****SELECTED FINANCIAL DATA**

The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements appearing elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with Chilean GAAP and the rules of the Chilean Superintendency of Banks, which together differ in certain significant respects from U.S. GAAP. Note 28 to our audited consolidated financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended December 31, 2004, 2005 and 2006 and shareholders' equity at December 31, 2005 and 2006.

	At or for the year ended December 31,					2006
	2002	2003	2004	2005	2006	2006
	(in millions of constant Ch\$ as of December 31, 2006, except share data)					(in thousands of U.S.\$)
<b>CONSOLIDATED INCOME STATEMENT DATA</b>						
<b>Chilean GAAP:</b>						
Interest revenue	Ch\$ 717,702	Ch\$ 567,485	Ch\$ 597,371	Ch\$ 697,784	Ch\$ 777,654	U.S.\$ 1,455,109
Interest expense	(352,207)	(221,645)	(227,283)	(316,677)	(372,244)	(696,525)
Net interest revenue	365,495	345,840	370,088	381,107	405,410	758,584
Provisions for loan losses	(97,163)	(37,642)	(42,073)	(22,491)	(36,228)	(67,788)
Total fees and income from services, net	83,397	103,527	133,248	140,177	133,541	249,876
Total other operating income (loss), net	3,466	2,436	(6,411)	7,935	21,779	40,752
Total other income and expenses, net	(16,002)	(11,668)	(11,233)	(6,361)	3,905	7,305
Total operating expenses	(272,310)	(241,391)	(254,865)	(282,318)	(300,537)	(562,350)
Loss from price-level restatement	(10,508)	(4,376)	(7,897)	(11,690)	(8,526)	(15,953)
Income before income taxes	56,375	156,726	180,857	206,359	219,344	410,426
Income taxes	1,263	(15,180)	(19,414)	(21,840)	(24,096)	(45,087)
Net income	57,638	141,546	161,443	184,519	195,248	365,339
Earnings per share <sup>(1)</sup>	0.85	2.08	2.41	2.75	2.84	0.0053
Dividends per share <sup>(2)</sup>	2.20	0.85	2.09	2.45	2.25	0.0042
Weighted average number of shares (in millions)	68,079.78	68,079.78	66,932.68	67,091.30	68,821.30	
<b>U.S. GAAP<sup>(3)</sup>:</b>						
Interest revenue	779,149	490,324	623,955	719,728	795,628	1,488,741
Interest expense	(375,661)	(221,337)	(230,631)	(324,031)	(376,611)	(704,697)
Net interest revenue	403,488	268,987	393,324	395,697	419,017	784,045
Provisions for loan losses	(116,722)	(29,717)	(33,339)	(23,496)	(51,932)	(97,173)
Net income	18,566	141,379	155,397	172,375	172,836	323,403
Earnings per share <sup>(1)</sup>	0.27	2.08	2.32	2.57	2.51	4.70
Weighted average number of total shares <sup>(4)</sup>	68,080	68,080	66,933	67,091	68,821	

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	2002	2003	At or for the year ended December 31,		2006	2006
			2004	2005		(in thousands of U.S.\$)
	(in millions of constant Ch\$ as of December 31, 2006, except share data)					
<b>CONSOLIDATED BALANCE SHEET DATA</b>						
<b>Chilean GAAP:</b>						
Cash and due from banks	740,712	928,979	942,054	673,154	1,219,073	2,281,072
Investments purchased under agreements to resell	35,235	32,157	27,830	47,676	53,314	99,759
Financial investments	1,697,447	2,027,922	1,665,790	1,408,356	1,253,441	2,345,380
Loans, net of allowances	6,510,539	6,587,549	7,124,167	8,233,976	9,550,187	17,869,854
Derivative instruments					50,501	94,495
Other assets	424,682	452,135	446,662	549,881	633,770	1,185,880
<b>Total assets</b>	<b>9,408,615</b>	<b>10,028,742</b>	<b>10,206,503</b>	<b>10,913,043</b>	<b>12,760,286</b>	<b>23,876,440</b>
Deposits	5,627,501	5,761,771	6,120,290	6,752,882	8,031,027	15,027,276
Other interest bearing liabilities	2,501,435	2,787,314	2,498,589	2,291,170	2,451,796	4,587,683
Derivative instruments	9,103	9,571	47,156	61,277	69,955	130,897
Other liabilities	593,588	715,834	826,977	1,016,330	1,372,877	2,568,862
<b>Total liabilities</b>	<b>8,731,627</b>	<b>9,274,490</b>	<b>9,493,012</b>	<b>10,121,659</b>	<b>11,925,655</b>	<b>22,314,718</b>
Shareholders' equity	Ch\$ 676,988	Ch\$ 754,252	Ch\$ 713,491	Ch\$ 791,384	Ch\$ 834,631	U.S.\$ 1,561,722
<b>U.S. GAAP<sup>(3)</sup>:</b>						
Financial investments	1,570,421	1,768,351	1,565,489	1,142,959	973,052	1,820,729
Loans, net	6,143,856	6,220,512	6,653,280	7,599,218	8,645,198	16,176,483
<b>Total assets</b>	<b>9,414,834</b>	<b>9,982,678</b>	<b>10,158,270</b>	<b>10,845,350</b>	<b>12,316,991</b>	<b>23,046,968</b>
<b>Total liabilities</b>	<b>8,013,224</b>	<b>8,529,146</b>	<b>8,757,512</b>	<b>9,385,579</b>	<b>10,840,573</b>	<b>20,284,365</b>
<b>Total shareholders' equity</b>	<b>1,401,610</b>	<b>1,453,532</b>	<b>1,400,758</b>	<b>1,459,771</b>	<b>1,476,418</b>	<b>2,762,603</b>



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	At or for the year ended December 31,				
	2002	2003	2004	2005	2006
<b>CONSOLIDATED RATIOS</b>					
<b>Chilean GAAP:</b>					
<i>Profitability and Performance</i>					
Net interest margin <sup>(5)</sup>	4.10%	3.90%	4.09%	4.10%	3.95%
Return on average total assets <sup>(6)</sup>	0.59	1.45	1.59	1.75	1.68
Return on average shareholders' equity <sup>(7)</sup>	8.69	20.01	23.56	26.66	25.00
<i>Capital</i>					
Average shareholders' equity as a percentage of average total assets	6.75	7.22	6.75	6.56	6.73
Bank regulatory capital as a percentage of minimum regulatory capital	218.35	202.71	179.13	184.06	165.71
Ratio of liabilities to regulatory capital <sup>(8)</sup>	14.10	15.14	17.20	16.68	18.65
<i>Credit Quality</i>					
Substandard loans as a percentage of total loans <sup>(9)</sup>	6.69	5.16	6.51	4.62	3.73
Past due loans as a percentage of total loans	2.35	1.69	1.23	0.87	0.64
Allowances for loan losses as a percentage of substandard loans <sup>(9)</sup>	52.44	55.56	34.30	37.26	40.06
Allowances for loan losses as a percentage of past due loans	149.07	170.09	181.59	198.05	235.03
Allowances for loan losses as a percentage of total loans	3.51	2.87	2.23	1.72	1.50
Past due amounts as a percentage of bank regulatory capital	25.63	18.67	16.23	12.00	9.65
Consolidated risk index <sup>(10)</sup>	3.00	2.36	2.23	1.72	1.50
<i>Operating Ratios</i>					
Operating expenses/operating revenue	60.20	53.43	51.29	53.35	53.60
Operating expenses/average total assets	2.77	2.46	2.51	2.68	2.59
<b>U.S. GAAP:</b>					
<i>Profitability and Performance</i>					
Net interest margin <sup>(11)</sup>	4.53	3.03	4.34	4.25	4.08
Return on average total assets <sup>(12)</sup>	0.19	1.44	1.53	1.64	1.48

- (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 28 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.
- (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.
- (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.

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- (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 and 2006 are not comparable to the consolidated risk index presented for preceding 2004. See Note 1 to our audited consolidated financial statements.
- (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 29, 2006 (the latest practicable date as December 30 and 31, 2006 were banking holidays in Chile), the average exchange rate in the Informal Exchange Market was Ch\$532.25 per U.S.\$1.00, or 0.41% lower than the published observed exchange rate of Ch\$534.43 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 2002, 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>
2002	Ch\$ 641.75	Ch\$ 756.56	Ch\$ 688.94	Ch\$ 712.38
2003	593.10	758.21	691.40	599.42
2004	559.21	649.45	609.55	559.83
2005	509.70	592.75	559.77	514.21
2006	511.44	549.63	530.26	534.43
December	524.78	534.43	527.58	534.43
2007				
January	532.39	545.18	540.51	545.18
February	535.29	548.67	542.27	538.42
March	535.36	541.95	538.49	539.37
April	527.08	539.69	532.30	527.08
May	517.64	527.52	522.02	527.52
June <sup>(5)</sup>	524.10	529.32	526.40	525.41

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, 2007 through June 22, 2007.

The observed exchange rate on June 22, 2007 was Ch\$525.41 = 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**

***Our U.S. branches are subject to obligations imposed under consent orders***

Beginning in September 2004, the Office of the Comptroller of the Currency, or OCC, and the Board of Governors of the Federal Reserve System through the Federal Reserve Bank of Atlanta, together, the Federal Reserve, conducted targeted examinations of our New York and Miami branches, respectively, to evaluate, among other things, our compliance with the Bank Secrecy Act and other U.S. anti-money laundering requirements. As a result of their examinations, the OCC and the Federal Reserve identified certain deficiencies in our internal controls, particularly in the areas of the Bank Secrecy Act and anti-money laundering compliance. As a result, on February 1, 2005, we agreed to the issuance by the OCC of a consent order, applicable to our New York branch, and the issuance by the Federal Reserve of a cease and desist order, applicable to our Miami branch. Pursuant to these orders, we have instituted an action plan that includes the maintenance of programs geared towards strengthening our compliance with the Bank Secrecy Act and U.S. anti-money laundering laws.

On October 12, 2005, we entered into agreements with the OCC, and separately with the Financial Crimes Enforcement Network, or FinCEN, requiring a U.S.\$3 million civil penalty, payable by our New York and Miami branches, to resolve allegations related to the Bank Secrecy Act, anti-money laundering compliance and related matters. The implementation of activities related to the re-documentation of client folders and certain specific activities of the internal controls program of the branch in connection with the action plan have required a period of time greater than what was anticipated pursuant to the action plan. However, this plan was fully completed on March 31, 2007. Currently, other actions are being implemented in connection with the fulfillment of the OCC and Federal Reserve Orders, as those actions must be completed prior to the end of the third quarter of 2007. Our failure to satisfy the terms of the orders could result in additional supervisory actions against our New York and Miami branches, including the assessment of additional civil monetary penalties. See Item 8. Financial Information Legal Proceedings.

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

From December 31, 2002 to December 31, 2006, our aggregate loan portfolio, net of interbank loans (on an unconsolidated basis) grew by 62.2% in nominal terms and 48.1% in real terms to Ch\$9,460,867 million. During the same period, our consumer loan portfolio grew by 159.8% in nominal terms and 137.2% in real terms to Ch\$1,072,324 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, 2006, total allowances for loan losses accounted for Ch\$140,960 million, or 1.49%, of total average 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, 2002 to December 31, 2006, the

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aggregate amount of loans outstanding in the Chilean banking system (on an unconsolidated basis) grew by 63.3% in nominal terms and 52.8% in real terms to Ch\$52,302,169 million. A reversal of this rate of growth of the Chilean economy could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses. See Item 4. Information on the Company 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.

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 in the future impose more restrictive limitations on the activities of banks, including us, than those that are currently in effect. Any such change could have a material adverse effect on our financial condition or results of operations.

***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 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

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with Dresdner Banque Nationale de Paris; and in 2005 Banco de Creditos e Inversiones merged with Banco Conosur. 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 7.8% of the value of our total loan portfolio at December 31, 2006, including companies with annual sales of up to Ch\$1,200 million) and, to a lesser extent, of lower income individuals (approximately 2.9% of the value of our total loan portfolio at December 31, 2006, including individuals with monthly incomes between Ch\$170,000 and Ch\$380,000). 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, 2006, Sociedad Administradora de la Obligacion Subordinada S.A., or SAOS, our affiliate, holds 41.42% of our shares as a consequence of our 1996 reorganization. The reorganization was partially due to our 1989 repurchase from the Central Bank of certain non-performing loans that we had previously sold to the Central Bank and later exchanged for 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 28(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 share dividend paid in May 2006 and in May 2007, the percentage further decreased to 40.9%. 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, 2007, SAOS maintained a surplus with the Central Bank of Ch\$12,516 million, equivalent to 1.85% of our capital and reserves. As of the same date, Ch\$135,589 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.

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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 72.3% of our operating revenue in 2006. Changes in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, leading to a reduction in our net interest revenue. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors. Any volatility in interest rates could have a material adverse effect on our financial condition or results of operations. The average annual short-term interest rate (based on the rate paid by Chilean financial institutions) for 90 to 360 day deposits was 1.07% in 2004, 1.89% in 2005 and 2.83% in 2006. The average long-term interest rate based on the Central Bank's eight-year bonds was 3.51% in 2004, 2.55% in 2005 and 2.98% in 2006. 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 May 10, 2007, LQ Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco S.A., beneficially owned approximately 52.1% 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 2006, a daily average of 14,776 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, 2006, approximately 13.41% of our outstanding shares are held by shareholders other than our principal shareholders, including SM-Chile and SAOS.



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

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

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

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

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

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

### ***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

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(other than common stock) will be subject to the same Chilean tax rules as cash dividends. See Item 10. Additional Information Taxation Chilean Tax Considerations.

### **Risks Relating to Chile**

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

The Chilean government's economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could affect the dollar value of our common stock and our ADSs. The peso has been subject to large devaluations in the past and could be subject to significant fluctuations in the future. In the period from December 31, 2004 to December 31, 2006, the value of the U.S. dollar relative to the Chilean peso decreased approximately 9.9%, 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, 2006, 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\$16,925 million, or 2.6% 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 Chilean inflation has moderated in recent years, Chile has experienced high levels of inflation in the past. High levels of inflation in Chile could adversely affect the Chilean economy and, indirectly, the value of our ADSs. The annual rate of inflation (as measured by changes in the Consumer Price Index and as reported by the Chilean National Institute of Statistics) during the last five years ended December 31, 2006 and the first five months of 2007 was:

Year	Inflation (Consumer Price Index)
2002	2.8%
2003	1.1
2004	2.4
2005	3.7
2006	2.6
2007 (through May 31)	1.8%

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 branches in New York and Miami, our trade services subsidiary in Hong Kong and our four representative offices located in Buenos Aires, 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 28 to our audited consolidated financial statements.

As a regulated financial institution, we are required to submit to the Chilean Superintendency of Banks unaudited unconsolidated balance sheets and income statements, excluding any note disclosure, prepared in accordance with Chilean GAAP on a monthly basis. The Chilean Superintendency of Banks

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makes this information public within approximately three months of receipt. The Chilean Superintendency of Banks also makes summary financial information available within three weeks of receipt. Such disclosure differs in a number of significant respects from information generally available in the United States with respect to U.S. financial institutions.

Chilean disclosure requirements for publicly listed companies differ from those in the United States in some 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). Our registered agent in the United States is Banco de Chile, New York Branch, located at 535 Madison Avenue, 9th Floor, New York, New York 10022, telephone number +1 (212) 758-0909.

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

We offer international banking services through our branches in New York and Miami, our trade services subsidiary in Hong Kong, our representative offices in Buenos Aires, 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, 2006, we had:

total assets of Ch\$12,760,286 million (U.S.\$ 23,876 million);

loans outstanding of Ch\$9,695,166 million (U.S.\$ 18,141 million);

deposits of Ch\$8,031,027 million (U.S.\$ 15,027 million); and

shareholders' equity including net income of Ch\$834,631 million (U.S.\$ 1,562 million).

According to information published by the Chilean Superintendency of Banks, as of December 31, 2006, we were the second largest private bank in Chile in terms of total loans (excluding interbank loans) with a market share of 18.1%.

We are headquartered in Santiago, Chile and, as of December 31, 2006, had 11,219 employees and delivered financial products and services through a nationwide network of 282 branches and 1,456 ATMs that form part of a network of 5,387 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 Valparaíso, 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. In 2001 and 2002, we incurred merger related costs of approximately Ch\$15,975 million and Ch\$33,818 million, respectively. No further costs related to the merger have been incurred since 2002.

***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



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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.

There are important challenges scheduled for 2007. The new core banking solution phases include the implementation of liability products such as checking accounts and time deposits. The commercial platform (CRM) will be expanded to the our Banco CrediChile consumer division, while the teller solution will be expanded to the entire Bank's networks. Finally, during 2007, we will launch a Business Intelligence initiative to implement an Operational Data Store (ODS) and a new Data Warehouse to build the foundations upon which new management tools will be developed.

### ***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.

The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch\$1,137,026 million, or U.S.\$2,128 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.

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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 share dividend paid in May 2006 and in May 2007, the percentage further decreased to 40.9%. 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, 2007, SAOS maintained a surplus with the Central Bank of Ch\$12,516 million, equivalent to 1.85% of our paid-in capital and reserves. As of the same date, Ch\$135,589 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 28(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, 2004, 2005 and 2006:

	For the Year Ended December 31,		
	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)		
Computer equipment	Ch\$ 7,245	Ch\$ 8,379	Ch\$ 9,409
Furniture, machinery and installations	4,903	7,536	10,745
Real estate	420	2,390	1,661
Vehicles	453	351	325
Subtotal	13,021	18,656	22,140
Software	7,980	7,411	10,872
Total	Ch\$ 21,001	Ch\$ 26,067	Ch\$ 33,012

Our budget for capital expenditures in 2007 is Ch\$51,164 million, substantially all of which will be used in Chile. Capital expenditures planned for 2007 consist mainly of expenditures for information technology and the continued implementation of Neos. We also 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 de A. Edwards, Banchile, Banco Credichile and Leasing Andino. 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, 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 are developing a new customer relationship management system and providing 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\$140,177 million (U.S.\$262 million) and Ch\$133,541 million (U.S.\$250 million) in 2005 and 2006, respectively, representing 26.5% and 23.8% 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 2006, our consolidated operating expenses represented approximately 53.6% 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.

We have invested heavily in technology during recent years (approximately Ch\$15,225 million in 2004, Ch\$15,790 million in 2005 and Ch\$20,281 million (U.S.\$37.9 million) in 2006) 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 2006, capital expenditures associated with Neos amounted to approximately Ch\$23,970 million (U.S.\$44.9 million). We estimate that our Neos related capital expenditures will amount to Ch\$8,890 million (U.S.\$16.6 million) in 2007.

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

We intend to provide to our primarily Chilean customer base a complete array of international products at competitive prices. Our primary focus in this respect will be on trade financing of customer related operations, which is one of our traditional areas of international activity. In order to strengthen our relationships with Chilean businesses engaged in international trade, we intend to emphasize 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, Buenos Aires and Beijing.

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 ownership structure at May 10, 2007:

### **Share Repurchase Program**

On March 20, 2003, at an extraordinary shareholders meeting, our shareholders approved the establishment of a share repurchase program to be conducted on the various Chilean stock exchanges on which our shares are listed and/or through a tender offer conducted in accordance with the Chilean Corporations Law. The program began on April 26, 2004 and concluded on August 2, 2005.

The Central Bank authorized the program on June 2, 2003, subject to its prior approval of the offering price of any shares resold by us that were acquired under the program, and the condition that the shares may only be purchased using retained net income from prior years. The Chilean Superintendency of Banks authorized the program on July 2, 2003.

Under the terms of the share repurchase program:

The maximum percentage of shares that we were permitted to repurchase could not exceed 3% of our paid-in capital;

The minimum price that we were permitted to pay for the shares was the weighted average of the closing prices of the shares as quoted by the Santiago Stock Exchange for the 45 business days preceding the repurchase, and the maximum price was 15% higher than that average;

If the shares that we repurchased were not resold within 24 months of acquisition, paid-in capital could be reduced by the amount of shares we repurchased that were not resold;

Shareholders had a preferential right to acquire the repurchased shares if we decided to resell them, unless our board of directors approved the sale of up to 1% of our shares during a 12-month period on any stock exchange on which our shares were listed; and

Repurchased shares, although registered in our name, did not have voting or dividend rights.

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On March 25, 2004, our board of directors resolved to commence a tender offer to repurchase 1,701,994,590 of our shares, representing 2.5% of our total capital, at a purchase price of Ch\$31 per share. The tender offer expired on April 26, 2004, and 5,000,844,940 shares were tendered.

On March 24, 2005, our board of directors resolved to resell 1,701,994,590, or 100%, of the shares we acquired through the program. On May 5, 2005, the Central Bank set a sale price of UF0.002031, the equivalent of Ch\$37.24, per share. Of the shares to be resold, 968,822,755, or 1.42% of shares outstanding, were offered to our shareholders for a 30-day preemptive rights period that ended June 22, 2005. 1,114,857 shares were sold during this period. The remaining 733,171,835 shares, or 1.08% of shares outstanding, were offered in a tender offer to SM-Chile's series A, B and D shareholders which began on June 23, 2005 and closed on July 22, 2005. The 1,699,220,748 shares that were not resold to our shareholders or SM-Chile's series A, B or D shareholders in the preemptive offering or tender offer, as applicable, were sold in a public offering in the Santiago Stock Exchange from July 26, 2005 to August 1, 2005. The settlement date was August 2, 2005.

**Table of Contents****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:

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, 2006, allocated among our principal business segments:

	Loans (in millions of constant Ch\$ as of December 31, 2006, except for percentages)		Consolidated net income before tax <sup>(1)</sup>
Retail market	Ch\$ 3,992,748	41.2%	Ch\$ 130,740
Wholesale market	5,013,376	51.7	82,653
International banking	341,861	3.5	(6,603)
Treasury and money market operations	45,131	0.5	19,109
Operations through subsidiaries	302,050	3.1	27,848
Other (adjustments and eliminations)			(34,403)
<b>Total</b>	<b>Ch\$ 9,695,166</b>	<b>100.0%</b>	<b>Ch\$ 219,344</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.

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

	For the Year Ended December 31,		
	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)		
Retail market	Ch\$ 264,568	Ch\$ 291,006	Ch\$ 321,937
Wholesale market	109,178	120,975	130,331
International banking	12,433	14,123	15,086
Treasury and money market operations	28,767	19,226	22,677
Operations through subsidiaries	69,487	71,546	71,843
Other (adjustments and eliminations)	12,492	12,343	(1,144)
<b>Total</b>	<b>Ch\$ 496,925</b>	<b>Ch\$ 529,219</b>	<b>Ch\$ 560,730</b>

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

	For the Year Ended December 31,		
	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)		
Chile	Ch\$ 485,262	Ch\$ 515,359	Ch\$ 545,866
Banking operations	415,774	443,992	474,276
Operations through subsidiaries	69,488	71,367	71,590
Foreign operations	11,663	13,860	14,864
New York	9,174	10,792	11,216
Miami	2,489	2,890	3,395
Operations through subsidiaries		178	253
<b>Total</b>	<b>Ch\$ 496,925</b>	<b>Ch\$ 529,219</b>	<b>Ch\$ 560,730</b>

**Retail Market**

Our retail market business segment serves the financial needs of individuals and middle market companies through our branch network comprised by 282 branches.

As of December 31, 2006, loans to our retail market represented 41.2% of our total loans outstanding and our retail market business segment accounted for approximately Ch\$130,740 million of our net income before tax for the year ended December 31, 2006.

The following table sets forth the composition of our retail market business segment's loan portfolio as of December 31, 2006:

	As of December 31, 2006 (in millions of constant Ch\$ as of December 31, 2006, except for percentages)	
Consumer loans	Ch\$ 1,068,310	26.8%
Commercial loans	877,857	22.0
Mortgage loans	517,472	13.0
Leasing contracts	133,708	3.3
Contingent loans	40,646	1.0
Foreign trade loans	29,448	0.7
Other loans <sup>(1)</sup>	1,325,307	33.2



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Total

Ch\$ 3,992,748

100.0%

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

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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 195 such branches at December 31, 2006.

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, 2006, the individuals and middle market division served more than 423,000 individual customers and over 46,000 companies, resulting in loans outstanding to approximately 365,000 debtors, including approximately 54,098 residential loans, 33,612 commercial loans, 324,947 approved lines of credit, 178,701 other consumer loans and 385,661 credit card accounts. At the same date, we maintained 450,113 checking accounts, 58,481 savings accounts and 33,146 time deposits related to individuals.

As of December 31, 2006, loans originated by our individuals and middle market division represented 38.2% 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, 2006:

	<b>As of December 31, 2006</b> <b>(in millions of constant Ch\$</b> <b>as of December 31, 2006,</b> <b>except for percentages)</b>	
Consumer loans	Ch\$ 842,326	22.7%
Commercial loans	877,326	23.7
Mortgage loans	473,278	12.8
Leasing contracts	133,363	3.6
Contingent loans	40,646	1.1
Foreign trade loans	29,448	0.8
Other loans <sup>(1)</sup>	1,311,469	35.3
<b>Total</b>	<b>Ch\$ 3,707,856</b>	<b>100.0%</b>

(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.

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At December 31, 2006, we had Ch\$514,561 million in installment loans to individuals, which accounted for 61.1% 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, 2006, there were outstanding residential mortgage loans to individuals of Ch\$1,482,623 million, which represented 37.1% of the retail market total loans and 15.3% 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.

As of December 31, 2006, 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 14.4% of the residential mortgage loans in the Chilean banking system and approximately 19.4% of such loans made by private sector banks.

### *Credit Cards*

We issue both Visa and MasterCard credit cards, and our product portfolio includes both personal and corporate cards. In addition to traditional cards, our credit card portfolio also includes co-branded cards ( Travel Club and Global Pass ), and 40 affinity card groups, most of which are associated with our co-branded programs.

As of December 31, 2006, we had 386,778 valid credit card accounts, with 530,615 credit cards to individuals. Total charges on our credit cards during 2006 amounted to Ch\$569,947 million, with Ch\$452,815 million corresponding to purchases and service payments in Chile and abroad and Ch\$77,800 million corresponding to cash advances (both within Chile and abroad). These charge volumes represent a 27.4% market share in terms of volume of use of bank credit cards issued in Chile.

As of December 31, 2006, our credit card loans to individuals amounted to Ch\$118,980 million and represented 11.1% 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, 2006, Transbank S.A. had 17

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shareholders and Nexus S.A. had seven shareholders, all of which are banks. As of December 31, 2006, 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, Banjovent, 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, 2006, we had a 28.1% market share of debit card transactions, with approximately 19 million transactions performed as of that date.

### *Lines of Credit*

We had approximately 321,903 approved lines of credit to individual customers as of December 31, 2006 and outstanding advances to 219,959 individuals totaling Ch\$180,476 million, or 4.5% of the retail market total loans.

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

### *Deposit Products*

We seek to increase our deposit-taking activities as a means of diversifying our sources of funding. We believe that the deposits of our individual customers provide us with a relatively low cost, stable funding source, as well as the opportunity to cross-market our other products and services. We offer 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, 2006, we administered 403,146 checking accounts for approximately 387,980 individual customers with an aggregate balance of Ch\$529,469 million. At such date, our checking account balances totaled approximately Ch\$1,738,972 million and represented 14.6% 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

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collections, leasing agreements, factoring services, checking account services, investment management, insurance broking, currency trading, transfers and payments to and from abroad. As of December 31, 2006, we had approximately 43,970 middle market companies with checking accounts and 24,416 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, 2006, our middle market companies had outstanding commercial loans of Ch\$473,654 million, representing 11.9% 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, 2006, our middle market companies had outstanding leasing contracts of Ch\$90,804 million, representing 2.3% 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, 2006, middle market companies had outstanding mortgage loans of approximately Ch\$84,797 million, representing 2.1% of the retail market business segment's total loans 0.9% of our total loans at such date.

### *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 87 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, 2006, Banco CrediChile had approximately 236,440 customers and total loans outstanding of Ch\$284,891 million, representing 2.9% of our total loan portfolio at that date.

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The following table sets forth the composition of our portfolio of loans to Banco CrediChile as of December 31, 2006:

	<b>As of December 31, 2006 (in millions of constant Ch\$ as of December 31, 2006, except for percentages)</b>	
Consumer loans	Ch\$ 225,984	79.3%
Mortgage loans	44,194	15.5
Other loans	14,713	5.2
Total	Ch\$ 284,891	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.

*Consumer Lending*

Banco CrediChile provides short- to medium-term consumer loans and credit card services. As of December 31, 2006, Banco CrediChile had approximately 205,287 consumer loans that totaled Ch\$205,587 million outstanding. As of the same date, Banco CrediChile customers had 137,830 valid credit card accounts, with outstanding balances of Ch\$20,375 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 5,387 ATMs available through the Redbanc network.

As of December 31, 2006, Banco CrediChile had approximately 551,501 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.

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Bancuenta allows us to offer our wholesale customers the ability to pay their employees by direct deposit of funds into the individual employees' 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, 2006, loans made by this business segment totaled approximately Ch\$5,013,376 million and represented 51.7% of our total loan portfolio. Our wholesale banking business segment accounted for approximately Ch\$82,653 million of our net income before tax for the year ended December 31, 2006.

The following table sets forth the composition of our portfolio of loans to the wholesale market as of December 31, 2006:

	<b>As of December 31, 2006 (in millions of constant Ch\$ as of December 31, 2006, except for percentages)</b>	
Commercial loans	Ch\$ 3,043,800	60.7%
Foreign trade loans	566,912	11.3
Contingent loans	732,886	14.6
Leasing contracts	405,467	8.1
Mortgage loans	63,746	1.3
Other	200,565	4.0
<b>Total</b>	<b>Ch\$ 5,013,376</b>	<b>100.0%</b>

As of December 31, 2006, we had approximately 7,650 wholesale debtors. Our wholesale customers are engaged in a wide spectrum of industry sectors. As of December 31, 2006, this business segment's loans were mainly related to:

financial services (approximately 34.8% of all loans made by this business segment);

construction (approximately 15.1% of loans made by this business segment);

manufacturing (approximately 12.6% of all loans made by this business segment);

trade (approximately 13.3% of all loans made by this business segment);

community, social and personal services (approximately 6.8% of all loans made by this business segment); and

agriculture (approximately 6.6% 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*

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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.



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As of December 31, 2006, we had 1,822 large corporations debtors. Loans to large corporations totaled approximately Ch\$3,740,235 million as of December 31, 2006, representing 38.6% 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, 2006:

	<b>As of December 31, 2006</b> <b>(in millions of constant Ch\$ as of December 31, 2006,</b> <b>except for percentages)</b>		
Commercial loans	Ch\$	2,434,463	65.1%
Foreign trade loans		363,896	9.7
Contingent loans		566,906	15.2
Leasing contracts		185,279	5.0
Mortgage loans		24,107	0.6
Other		165,584	4.4
<b>Total</b>	<b>Ch\$</b>	<b>3,740,235</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 1,050 payment service contracts and approximately 270 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.

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, 2006, we had 5,830 large companies debtors. Loans to large companies totaled approximately Ch\$1,273,141 million as of December 31, 2006, representing 13.1% of our total loans at that date.

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The following table sets forth the composition of our portfolio of loans by the large companies division as of December 31, 2006:

	<b>As of December 31, 2006</b> <b>(in millions of constant Ch\$ as of December 31, 2006,</b> <b>except for percentages)</b>		
Commercial loans	Ch\$	609,337	47.9%
Foreign trade loans		203,016	15.9
Contingent loans		165,980	13.0
Leasing contracts		220,188	17.3
Mortgage loans		39,639	3.1
Other		34,981	2.8
<b>Total</b>	<b>Ch\$</b>	<b>1,273,141</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 Leasing Andino. 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.

**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, 2006, we had Ch\$677,296 million in foreign trade loans, representing 7.0% of our total loans as of that date, and Ch\$234,812 million in letters of credit related to foreign trade operations, representing 1.5% of our total loans as of that date.

Our international banking business segment also manages our international network. This network is made up of branches in New York and Miami, our trade services subsidiary in Hong Kong, four representative offices (located in Mexico City, Sao Paulo, Buenos Aires and Beijing) and approximately 1,000 correspondent

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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.

The following table sets forth, as of December 31, 2006, the composition of our portfolio of loans originated through our New York and Miami branches:

	As of December 31, 2006	
	New York Branch (in millions of constant Ch\$ as of December 31, 2006)	Miami Branch (in millions of constant Ch\$ as of December 31, 2006)
Foreign trade loans	Ch\$	Ch\$ 61,016
Commercial loans	20,255	13,805
Contingent loans	2,325	1,902
Total	Ch\$ 22,580	Ch\$ 76,723

The following table sets forth, as of December 31, 2006, the sources of funding for our New York and Miami branches:

	As of December 31, 2006			
	New York Branch (in millions of constant Ch\$ as of December 31, 2006, except for percentages)		Miami Branch (in millions of constant Ch\$ as of December 31, 2006, except for percentages)	
Current accounts	Ch\$ 93,438	25.7%	Ch\$ 15,564	13.5%
Certificates of deposits and time deposits	196,084	54.1	95,725	82.9
Other demand deposits	28,862	8.0	1,664	1.4
Contingent liabilities	2,325	0.6	1,902	1.6
Foreign borrowings	19,989	5.5	214	0.2
Other liabilities	22,032	6.1	411	0.4
Total	Ch\$ 362,730	100.0%	Ch\$ 115,480	100.0%

*New York Branch*

Our New York branch was established in 1982 and provides a range of general banking services, including deposit taking, mainly to non-residents of the United States. As of December 31, 2006, the New York branch had total assets of Ch\$373,477 million, including a loan portfolio of Ch\$22,580 million, representing 0.2% of our total loan portfolio. Of the New York branch's loans, commercial loans accounted for Ch\$20,255, mostly to large corporations in Chile and, to a lesser extent, to U.S. companies. The remaining Ch\$2,325 million was comprised of contingent loans (letters of credit and stand-by letters of credit). In 2006, our New York branch recognized a net loss of Ch\$3,870 million.

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Investments in bonds and foreign securities were Ch\$323,027 million as of December 31, 2006, most of which consisted of private sector bonds. As of December 31, 2006, the New York branch did not have past due loans. The New York branch's allowances for loan losses totaled Ch\$69 million, which represented 0.3% of the branch's loan portfolio as of December 31, 2006. 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\$179,235 million), time deposits (Ch\$139,150 million) and foreign borrowings (Ch\$19,989 million).

As of December 31, 2006, the New York branch had Ch\$10,747 million in capital (including a net loss of Ch\$3,870 million for the year).

*Miami Branch*

Our Miami branch was opened in 1995 as an agency and in 2004 expanded its banking operations to become a branch. It provides a range of traditional commercial banking services, mainly to non-residents of the United States, including deposit-taking, providing credit to finance foreign trade and making loans to individuals or Chilean companies involved in foreign trade. Additionally, our Miami branch provides correspondent banking services to financial institutions, including working capital loans, letters of credit and bankers' acceptances. As of December 31, 2006, our Miami branch had total assets of Ch\$120,687 million, a loan portfolio of Ch\$76,723 million (representing 0.8% of our total loan portfolio), and an investment portfolio of Ch\$29,840 million. Our Miami branch's loan portfolio as of December 31, 2006 consisted primarily of Ch\$61,016 million of foreign trade loans and Ch\$13,805 million of commercial loans primarily to Latin American companies, including Chilean companies. The branch's funding sources include demand deposits, money market accounts and deposits for less than 30 days (Ch\$53,934 million), time deposits (Ch\$59,019 million) and contingent liabilities (Ch\$1,902 million). In 2006, our Miami branch recognized a net loss of Ch\$986 million.

As of December 31, 2006, the Miami branch did not have past due loans. Allowances for loan losses amounted to Ch\$175 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.

*Representative offices*

The main activities of our representative offices in Argentina, 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.

*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. We also offer investments in mutual funds and stock brokerage services.

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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.

Our investment portfolio as of December 31, 2006 amounted to Ch\$1,253,441 million, of which 39.3% consisted of securities issued by the Central Bank and the Chilean Government, 28.1% consisted of securities from foreign issuers, 24.5% consisted of securities issued by local financial institutions and 8.1% 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, 2006:

	As of or for the year ended December 31, 2006			
	Assets	Shareholders	Equity	Net Income (loss)
	(in millions of constant Ch\$ as of December 31, 2006)			
Banchile Corredores de Bolsa S.A.	Ch\$ 379,449	Ch\$	45,205	Ch\$ 6,455
Banchile Administradora General de Fondos S.A.	31,851		30,499	9,664
Banchile Factoring S.A.	232,466		15,415	3,385
Banchile Corredores de Seguros Ltda	4,949		3,893	1,782
Socofin S.A.	5,158		930	543
Banchile Asesoría Financiera S.A.	3,499		1,696	1,241
Banchile Trade Services Limited	408		331	195
Banchile Securitizadora S.A.	5,404		300	(82)
Promarket S.A.	Ch\$ 1,417	Ch\$	603	Ch\$ 143
Total	Ch\$ 664,601	Ch\$	98,872	Ch\$ 23,326

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The following table sets out our ownership interest in our financial services subsidiaries as of December 31, 2006:

	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.	99.52	0.48	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.

*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, 2006, 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\$6,386,107 million. As of December 31, 2006, Banchile Corredores de Bolsa S.A. had equity of Ch\$45,205 million and, for the year ended December 31, 2006, net income of Ch\$6,455 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, 2006, 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 24.6% of all Chilean mutual funds assets. As of December 31, 2006, Banchile Administradora General de Fondos S.A. operated 55 mutual funds and managed Ch\$2,135,747 million in net assets on behalf of 190,379 corporate and individual participants. Banchile Administradora General de Fondos S.A. also operates two investment funds, Banchile Inmobiliario I and II, and manages Ch\$7,547 million in net assets on behalf of 660 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, 2006:

Name of Fund	Type of Fund	Net Asset Value As of December 31, 2006 (in millions of Ch\$)	
		Ch\$	
Utilidades	Fixed income (short/medium term)	163,524	
Liquidez 2000	Fixed income (short term)	545,711	
Deposito XXI	Fixed income (medium/long term)	207,070	
Corporativo	Fixed income (short term)	274,480	
Estrategico	Fixed income (medium/long term)	177,865	
Corporate Dollar	Fixed income (short term)	262	
Horizonte	Fixed income (medium/long term)	64,221	
Patrimonial	Fixed income (short term)	70,035	
Performance	Fixed income (short/medium term)	42,047	
Banchile Acciones	Equity	87,240	
Ahorro	Fixed income (medium/long term)	39,895	
Alianza	Debt/Equity (medium/long term)	30,625	
Disponible	Fixed income (short term)	22,293	
Crecimiento	Fixed income (short/medium term)	24,054	
Inversion	Debt/Equity	41,013	
Inversion 10	Debt/Equity	1,250	
Inversion 20	Debt/Equity	3,718	
Operacional	Fixed income (short/medium term)	14,806	
Capitalisa Accionario	Equity	7,351	
Renta Futura	Fixed income (short/medium term)	35,009	
Euro Money Market Fund	Fixed income (short term)	15	
Emerging Fund	Debt/Equity	32,450	
Latin America Fund	Debt/Equity	56,848	
Cobertura	Fixed income (medium/long term)	2,316	
Dolar Fund	Fixed income (medium/long term)	3	
U.S. Fund	Debt/Equity	1,359	
Global	Debt/Equity	1,813	
U.S. High Technology Fund	Debt/Equity	313	
Asia Fund	Debt/Equity	19,269	
Europe Fund	Debt/Equity	3,049	
Technology Fund	Debt/Equity	183	
U.S. Stability Fund	Debt/Equity	287	
International Bond	Fixed income (medium/long term)	338	
Euro Technology Fund	Debt/Equity	186	
Medical & Health-Care Fund	Debt/Equity	183	
Inversion Dollar 30	Debt/Equity	10	
Telecommunication Fund	Debt/Equity	1,053	
Emerging Dollar	Debt/Equity	43	
Global Dollar	Debt/Equity	4	
U.S. Dollar Fund	Debt/Equity	1	
Bonsai 106 Garantizado	Fixed income (medium/long term)	23,290	
Gestion Activa A	Debt/Equity	3,107	
Garantizado Plus	Fixed income (medium/long term)	20,654	
Garantizado 112	Fixed income (medium/long term)	7,520	
Chile Garantizado	Fixed income (medium/long term)	10,074	
Gestion Activa Acciones	Debt/Equity	816	
Gestion Activa B	Debt/Equity	1,361	
Gestion Activa C	Debt/Equity	1,621	
Gestion Activa D	Debt/Equity	322	
Gestion Activa E	Debt/Equity	19	



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Bambu Garantizado	Fixed income (medium/long term)	36,645
Brics Garantizado	Fixed income (medium/long term)	17,623
Inversionista Calificado	Equity	18,280
Fronteras del Este	Fixed income (medium/long term)	5,493
Marfil Garantizado	Fixed income (medium/long term)	16,730

Total		Ch\$	2,135,747
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As of December 31, 2006, Banchile Administradora General de Fondos S.A. had equity of Ch\$30,499 million and, for the year ended December 31, 2006, net income of Ch\$9,664 million, which represented 4.9% of our consolidated net income for such period.

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### *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, 2006, Banchile Factoring S.A. had net income of Ch\$3,385 million, with an 22.0% return on shareholders' equity and an estimated 16.3% 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, 2006, Banchile Asesoría Financiera S.A. had shareholders' equity of Ch\$1,696 million and, for the year ended December 31, 2006, net income of Ch\$1,241 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, 2006, Banchile Corredores de Seguros Limitada had shareholders' equity of Ch\$3,893 million and, for the year ended December 31, 2006, net income of Ch\$1,782 million. Banchile Corredores de Seguros Limitada had a 3.9% market share, measured by amount of policies (in Chilean pesos) sold by insurance brokerage companies during 2005, 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, 2006, Banchile Securitizadora S.A. had shareholders' equity of Ch\$300 million and, for the year ended December 31, 2006, net income of Ch\$(82) million. Banchile Securitizadora S.A. had a 9.00% market share measured by volume of assets securitized as of December 31, 2006.

### *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, 2006, Promarket S.A. had shareholders' equity of Ch\$603 million and, for the year ended December 31, 2006, net income of Ch\$143 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, 2006, Socofin S.A. had equity of Ch\$930 million and, for the year ended December 31, 2006, net income of Ch\$543 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, 2006, Banchile Trade Services Limited had equity of Ch\$331 million and, for the year ended December 31, 2006, net income of Ch\$195 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 1,456 ATMs (that form part of Redbanc's 5,387-ATM system) allow our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2006, we had a network of 282 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 2006, approximately 233,259 individual customers and 38,877 corporate customers performed close to 12.3 million transactions monthly on our website, of which 2.2 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 728,200 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 participated as a shareholder in *Administrador Financiero de Transantiago* ( AFT ), the company responsible for the financial management for the overhaul of Santiago's public transit system (the Transantiago Plan ). Other shareholders of the company include three major Chilean banks, a credit card company and a technology services company. We own 20% of AFT's shares, and its original capitalization was approximately U.S.\$13.4 million as of June 8, 2005. Since its inception, the Transantiago Plan has been beset with problems regarding its design and implementation. As a result, the Chilean Minister

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of Transportation and Telecommunications has imposed fines and executed guarantees from AFT in the amount of U.S.\$11.2 million to ensure the completion of the Transantiago Plan. As the date of this filing, we have contributed an additional U.S.\$3.0 million to AFT to pay for our portion of such guarantees and other AFT-related expenses. We may be required to contribute additional amounts, however we do not expect the monetary losses resulting from AFT's performance to 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 25 privately owned banks and one public sector bank, Banco del Estado. The privately owned banks have traditionally been divided between those that are principally Chilean-owned, of which there are 13, and those that are principally foreign-owned, of which there are 12. As of December 31, 2006, three banks together accounted for 53.6% of all outstanding loans by Chilean financial institutions, net of interbank loans: Banco Santander-Chile (22.2%), our bank (18.1%) and the public sector bank, Banco del Estado (13.3%). Chilean-owned banks together accounted for 48.5% of total loans outstanding while foreign-owned banks accounted for 38.1% of total loans outstanding.

As a commercial bank offering a range of services to all types of businesses and individual customers, we face a variety of competitors, ranging from other large, privately owned commercial banks to more specialized entities like niche banks. 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, 2006, with outstanding loans, net of interbank loans, of Ch\$6,982,281 million, representing a 13.3% 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 Chilean 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, we compete with both private Chilean and foreign-owned banks and consider our strongest competitors in this market to be Banco Santander-Chile and Citibank, 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.

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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 Crédito e Inversiones merged with Banco Conosur. 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.

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 1.6% as of December 31, 2006, according to the Chilean Superintendency of Banks, the opening of these banks is likely to make consumer banking more competitive. Non-bank competition including mainly department stores, private compensation funds, savings and credit cooperatives accounts and insurance companies for an estimated 34% of the total consumer market.

The following table provides certain statistical information on the Chilean financial system as of December 31, 2006:

	As of December 31, 2006							
	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, 2006, except percentages)							
Domestic private sector banks	Ch\$ 32,215,842	45.5%	Ch\$ 25,374,977	48.5%	Ch\$ 19,136,270	45.2%	Ch\$ 2,518,631	44.2%
Foreign-owned banks	27,284,396	38.6	19,944,915	38.1	16,567,792	39.2	2,675,985	46.9
Private sector total	Ch\$ 59,500,238	84.1	Ch\$ 45,319,892	86.6	Ch\$ 35,704,062	84.4	Ch\$ 5,194,616	91.1
Banco del Estado	11,228,919	15.9	6,982,281	13.4	6,599,252	15.6	507,250	8.9
Total banking system	Ch\$ 70,729,157	100.0%	Ch\$ 52,302,173	100.0%	Ch\$ 42,303,314	100.0%	Ch\$ 5,701,866	100.0%

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>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Banco Santander-Chile	24.7%	22.6%	22.7%	22.5%	22.2%
Banco de Chile	18.7	18.5	17.8	18.2	18.1
Banco de Credito e Inversiones <sup>(2)</sup>	10.4	11.2	11.8	12.5	12.5
Conosur	0.5	0.5	0.4		
BBVA Bilbao Vizcaya	6.7	7.3	7.8	8.1	8.2
Banco Corpbanca	5.4	6.4	6.5	6.4	6.3
<b>Total market share</b>	<b>66.4%</b>	<b>66.5%</b>	<b>67.0%</b>	<b>67.7%</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, 2006, according to information published by the Chilean Superintendency of Banks, we had an unconsolidated ratio of allowances to total loans of 1.48%, the same ratio posted by all Chilean banks as a whole. Since 2002, 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.

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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>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Banco de Chile	3.58%	2.89%	2.23%	1.70%	1.48%
Banco de Credito e Inversiones <sup>(1)</sup>	1.91	1.93	1.70	1.54	1.27
Conosur	12.65	8.21	7.17		
BBVA Bilbao Vizcaya	2.14	1.91	2.04	1.35	1.14
Banco Santander Chile	2.10	2.18	1.96	1.42	1.46
Banco Corpbanca	2.22	2.11	1.70	1.56	1.40
Financial system	2.54%	2.31%	1.99%	1.61%	1.48%

Source: Chilean Superintendency of Banks

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

As of December 31, 2006, according to information published by the Chilean Superintendency of Banks, we had an unconsolidated ratio of past due loans to total loans of 0.65%. 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>2004</b>	<b>2005</b>	<b>2006</b>
BBVA Bilbao Vizcaya	1.64%	1.13%	0.93%
Banco Santander Chile	1.52	1.05	0.79
Banco de Credito e Inversiones <sup>(1)</sup>	0.94	0.72	0.84
Banco de Chile	1.27	0.88	0.65
Banco Corpbanca	0.80	0.88%	0.57%
Conosur	0.39%		

Source: Chilean Superintendency of Banks

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



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

We had deposits of Ch\$7,457,426 million as of December 31, 2006 on an unconsolidated basis. In unconsolidated terms, our 17.6% 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>2004</b>	<b>2005</b>	<b>2006</b>
Banco de Chile	16.4%	16.4%	17.6%
Banco Santander Chile	20.6	21.5	22.0
Banco de Credito e Inversiones <sup>(1)</sup>	11.3	12.0	12.6
BBVA Bilbao Vizcaya	8.3	8.0	8.1
Banco Corpbanca	5.9	5.2	4.6
Conosur	0.5		
<b>Total market share</b>	<b>63.0%</b>	<b>63.1%</b>	<b>64.9%</b>

Source: Chilean Superintendency of Banks

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

**Shareholders Equity**

With Ch\$639,383million in shareholders equity (not including net income), according to information published by the Chilean Superintendency of Banks, as of December 31, 2006, 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>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(in millions of constant Ch\$ as of December 31, 2006)</b>		
Banco Santander Chile	Ch\$ 881,067	Ch\$ 859,807	Ch\$ 959,757
Banco de Chile	552,048	606,865	639,383
Banco de Credito e Inversiones <sup>(1)</sup>	356,665	403,489	467,446
Banco Corpbanca	344,435	362,346	394,145
BBVA Bilbao Vizcaya	266,825	264,541	266,905
Conosur	23,981		

Source: Chilean Superintendency of Banks

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



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

Our return on average shareholders' equity, including net income for the year, was 25.0% for the year ended December 31, 2006, 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:

	<b>Return on Average Shareholders' Equity</b>				
	<b>Year Ended December 31,</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Banco de Chile	8.7%	20.0%	23.6%	26.7%	25.0%
Banco Santander-Chile	16.6	21.6	20.4	23.7	25.2
Banco de Credito e Inversiones <sup>(1)</sup>	20.4	22.1	22.8	23.4	22.6
Banco Corpbanca	18.9	15.9	14.6	13.8	9.5
BBVA Bilbao Vizcaya	8.2	10.5	5.3	10.7	10.0
Conosur	17.0	25.1	35.9		
Financial system average	13.5%	15.0%	15.3%	16.4%	16.8%

Source: Chilean Superintendency of Banks

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

**Efficiency**

For the year ended December 31, 2006, our efficiency ratio (operating expenses as a percentage of our operating revenues) was 51.1% 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:

	<b>Efficiency Ratio<sup>(1)</sup></b>		
	<b>As of December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
BBVA Bilbao Vizcaya	68.1%	67.9%	66.6%
Banco de Credito e Inversiones <sup>(2)</sup>	53.1	52.7	53.7
Banco de Chile	51.2	50.4	51.1
Banco Santander-Chile	47.7	44.0	40.6
Banco Corpbanca	39.8	40.9	50.1
Conosur	62.1		

Source: Chilean Superintendency of Banks

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

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



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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

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appoint, with the prior approval of the board of directors of the Central Bank, a provisional administrator to manage a bank. It must also approve any amendment to a bank's bylaws or any increase in its capital.

The Chilean Superintendency of Banks examines all banks from time to time, generally at least once a year. Banks are also required to submit unconsolidated unaudited financial statements to the Chilean Superintendency of Banks on a monthly basis and to publish their unaudited financial statements at least four times a year in a newspaper with countrywide coverage. Financial statements as of December 31 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 holders' 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.

### **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\$1,980,329.04 or U.S.\$3,705.48 as of December 31, 2006) per calendar year.

### **Reserve Requirements**

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

In addition, 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 in checking accounts;

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

other deposits unconditionally payable immediately or within a term of less than 30 days; and

time deposits payable within ten days;

in the aggregate exceeds 2.5 times the amount of the bank's capital and reserves.

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\$14,669 million or U.S.\$27.4 million as of December 31, 2006). 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\$11,001 million or U.S.\$20.6 million as of December 31, 2006) 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**

In September 2005, the Chilean Superintendency of Banks introduced new regulations for measuring market risk under a standardized model methodology that determines, using regulatory criteria, the exposure to interest rate, currency and optionality risks faced by financial institutions.

In order to implement the standardized model, a bank's balance sheet is divided into two books: the banking book and the trading book. The latter comprises the positions in financial instruments that can be valued at market price, plus the foreign currency mismatch. The banking book is composed of all the asset and liability entries not forming part of the trading book.



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The new rules state that the risk of the trading book, the market risk exposure, plus 10% of the weighted assets by credit risk, may not be greater than a bank's effective equity. As of December 31, 2006, our market risk level amounted to approximately Ch\$19 billion.

The following table shows our regulatory excess margin, or the difference between the regulatory limit applicable to us and our effective equity, as of December 31, 2006.

	<b>At December 31, 2006</b> <b>(in millions of</b> <b>constant Ch\$ as of</b> <b>December 31, 2006)</b>
10% weighted asset by credit risk	Ch\$ 947,494
Market Risk Exposure	18,976
<b>Total</b>	<b>966,470</b>
Effective Equity	1,010,928
<b>Regulatory Excess Margin</b>	<b>44,458</b>

In June 2006, the Chilean Superintendency introduced new regulations for the valuation of investments in financial instruments as well as for determination of credit exposure of derivatives contracts. Regarding the valuation of investment in financial assets, banks in Chile must now group them into three classes:

securities that the bank intends, and is able, to hold to maturity (these securities are measured at amortized cost in the financial statements);

trading securities, which reflect active and frequent buying and selling and are held for short periods of time with the objective of generating profits from short-term differences in price (these securities are measured at fair value through profit and loss); and

securities available for sale that are not classified in either of the two categories above (these securities are measured at fair value but are reported as part of shareholders' equity).

Credit exposure of derivatives contracts represents the amount the bank can lose if its counterparty defaults. The amount of market risk represented by this measure changes depending on the fluctuation of interest rates, exchange rates and inflation rates. Under the new regulation, the credit exposure of a derivative contract is allocated against a counterparty's credit limit according to the following rule:

Credit exposure = (Fair value of the contract, if positive) + (Percentage of notional amount of the contract)

The first component ( fair value ) is only taken into account if the bank is gaining money on the contract (a positive return). The second component of the rule ( percentage of notional amount ) varies depending on whether the contract is a foreign exchange derivative contract or an interest rate derivative contract, and on the time remaining until the maturity of the contract.

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### **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, individual or any one group of related entities, directly or indirectly, unsecured credit in an amount that exceeds 5.0% of the bank's effective equity, or in an amount that exceeds 25.0% of its effective equity if the excess over 5.0% is secured by certain assets with a value equal to or higher than such excess. In the case of foreign export trade financing, the 5.0% ceiling for unsecured credits is raised to 10.0% and the 25.0% ceiling for secured credits to 30.0%. In the case of financing infrastructure projects built through the concession mechanism, the 5.0% ceiling for unsecured credits is raised to 15.0% if secured by a pledge over the concession, or if granted by two or more banks or finance companies which have executed a credit agreement with the builder or holder of the concession;

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

a bank may not directly or indirectly grant a loan, 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:

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

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

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payment capacity; and (v) its payment behavior. 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

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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 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%.

**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 and terrorism financing laws to the Chilean banking industry. Pursuant to the regulations, the Chilean Superintendency of Banks requires that banks implement know your customer policies, which must be approved by its board of directors and must take into account the volume and complexity of its operations, as well as the operations of its affiliates and foreign branches and other related parties.

In general, such policies are aimed at:

- properly identifying customers, including their background, transactional profile, 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;

- regulating PEP account-opening procedures;

- regulating account-opening procedures generally, including requirements that persons opening accounts present valid government-issued identification, evidence of solvency, verification of address, etc.);

- in the case of persons other than individuals, requiring copies of constituent documents, as well as identification of the owners, board members and officers, as well as a detailed





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explanation of line of business and other identifying data such as legal representatives, addresses and phone numbers; and

requiring enhanced due diligence with regard to correspondent accounts established or maintained by foreign financial institutions. This information must be updated at least annually and used by the bank to build a transactional profile of expected volume and type of transactions or products the customer will require. This information is used to evaluate the consistency of customer transactions with the defined transactional profile. Additionally, for unexpected transactions, new customers and PEPs, banks must require a statement, supported by adequate documentation, regarding the source of the funds for any such transaction that exceeds the lesser of (i) 450 UF or (ii) the limit defined by the bank's internal policies.

**Recent Changes to Chile's Capital Markets Law**

On May 24, 2007, the Chilean Treasury Minister signed a decree approving a new law to amend various aspects of the regulation of Chile's capital markets. The new law, No. 20,190, was passed by the Chilean Congress in order to improve the access to financing for start-up companies and small businesses, strengthen confidence in the stock market and to stimulate the development of the financial market in general. The Chilean 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. Since the law and its related regulations are very new, we are unable to determine what effects it may have on our business going forward. We expect to be able to provide a full description of any such effects in subsequent annual reports and other disclosure documents.

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**ORGANIZATIONAL STRUCTURE**

The following diagram presents our current corporate structure, including our subsidiaries and foreign branches 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 65,000 square meters and serves as our executive offices and as the executive offices for most our subsidiaries. In addition, we own an approximately 15,000 square meter building located at Huerfanos 740, Santiago, Chile where the remainder of our executive offices are located. At December 31, 2006, we owned the properties on which 148 of our full-service branches are located (approximately 105,000 square meters of office space). We lease office space for our remaining 135 full-service branches, 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:

$$R_p = \frac{1 + N_p}{1 + I} - 1$$

$$1 + I$$

and

$$R_d = \frac{(1 + N_d)(1 + D)}{1 + I} - 1$$

$$1 + I$$

Where:

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

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

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

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

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

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

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

The formula for the average real rate for foreign currency-denominated assets and liabilities ( $R_d$ ) 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 ( $I = 0.12$ ):

$$Rd = \frac{(1 + 0.10)(1 + 0.05)}{1 + 0.12} - 1 = 3.125\% \text{ per year}$$

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 2006 and 2005 (the published observed exchange rate was Ch\$534.43 per U.S.\$1.00 on December 31, 2006 as compared to Ch\$514.21 and Ch\$559.83 per U.S.\$1.00 on December 31, 2005 and 2004, respectively), and the fact that nominal interest rates and the inflation rate were comparatively low in 2006 and 2005, most real interest rates on foreign currency assets and liabilities shown in the tables in Selected Statistical Information are negative for 2006.

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, 2004, 2005 and 2006:

	2004		Year Ended December 31, 2005				2006		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, 2006, except percentages)												
%												
<b>Assets</b>												
<b>Interest-bearing assets</b>												
<b>Overbank deposits</b>												
Foreign currency	Ch\$ 102,306	Ch\$ 2,498	2.44	(6.59)	Ch\$ 160,792	Ch\$ 9,061	5.64	(6.40)	Ch\$ 109,690	Ch\$ 8,568	7.81	9.2
Local	102,306	2,498	2.44	(6.59)	160,792	9,061	5.64	(6.40)	109,690	8,568	7.81	9.2
<b>Financial investments</b>												
Foreign currency	1,045,420	27,548	2.64	0.20	727,182	24,465	3.36	(0.29)	630,636	30,990	4.91	2.3
Local	144,290	8,813	6.11	3.59	125,628	7,783	6.20	2.45	154,594	9,235	5.97	3.3
Foreign currency	750,439	23,426	3.12	(5.97)	612,772	22,709	3.71	(8.11)	489,400	25,760	5.26	6.3
Local	1,940,149	59,787	3.08	(1.93)	1,465,582	54,957	3.75	(3.32)	1,274,630	65,985	5.18	4.0
<b>Commercial loans</b>												
Foreign currency	1,312,498	87,372	6.66	4.13	1,529,215	105,371	6.89	3.12	1,772,479	137,454	7.75	5.0
Local	2,035,128	147,442	7.24	4.70	2,536,052	209,898	8.28	4.45	3,194,685	212,668	6.66	3.5
Foreign currency	234,257	7,138	3.05	(6.04)	291,900	11,404	3.91	(7.93)	258,282	12,799	4.96	6.3
Local	3,581,883	241,952	6.75	3.79	4,357,167	326,673	7.50	3.15	5,225,446	362,921	6.95	4.4
<b>Consumer loans</b>												
Foreign currency	645,079	125,404	19.44	16.61	761,415	144,251	18.95	14.75	944,821	192,656	20.39	17.3
Local	26,297	2,728	10.37	7.76	24,644	2,757	11.19	7.26	24,715	2,391	9.67	6.9
Foreign currency												
Local	671,376	128,132	19.08	16.26	786,059	147,008	18.70	14.51	969,536	195,047	20.12	17.3
<b>Overbank deposits</b>												
Local	33,157	602	1.82	(0.60)	39,076	1,375	3.52	(0.14)	17,268	894	5.18	2.3

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ign ency	14,626	265	1.81	(7.16)	1,546	78	5.05	(6.92)	557	35	6.28	7.0
l	47,783	867	1.81	(2.61)	40,622	1,453	3.58	(0.39)	17,825	929	5.21	2.7
<b>ing tracts</b>												
	16,899	1,135	6.72	4.18	18,513	1,641	8.86	5.02	21,980	2,397	10.91	8.5
	266,565	27,501	10.32	7.70	341,709	37,775	11.05	7.13	421,929	36,038	8.54	5.5
ign ency	38,192	2,253	5.90	(3.44)	39,214	2,399	6.12	(5.97)	40,249	2,852	7.09	8.3
l	321,656	30,889	9.60	6.19	399,436	41,815	10.47	5.75	484,158	41,287	8.53	6.1
<b>ign e loans</b>												
	21,358	510	2.39	(0.04)	22,500	898	3.99	0.32	24,516	529	2.16	(0.3)
ign ency	700,997	21,138	3.02	(6.07)	624,406	24,998	4.00	(7.85)	642,248	40,443	6.30	7.7
l	722,355	21,648	3.00	(5.89)	646,906	25,896	4.00	(7.56)	666,764	40,972	6.14	7.4
<b>rtgage s</b>												
	1,058,769	105,943	10.01	7.40	737,123	84,703	11.49	7.55	623,355	55,955	8.98	6.3
ign ency												
l	1,058,769	105,943	10.01	7.40	737,123	84,703	11.49	7.55	623,355	55,955	8.98	6.3
<b>tingent s</b>												
	63,175	1,845	2.92	2.92	83,299	1,718	2.06	2.06	112,881	1,746	1.55	(1.0)
	196,297	2,020	1.03	1.03	296,294	2,376	0.80	0.80	381,531	2,729	0.72	(1.3)
ign ency	244,745	80	0.03	0.03	248,041	346	0.14	0.14	334,156	488	0.15	1.4
l	504,217	3,945	0.78	0.78	627,634	4,440	0.71	0.71	828,568	4,963	0.60	(0.2)
<b>due s</b>												
	23,055	898	3.90	1.43	20,813	1,148	5.52	1.79	23,991	1,006	4.19	1.3
	76,223	834	1.09	(1.30)	60,410	630	1.04	(2.52)	41,794	21	0.05	(2.3)
ign ency	5,400	(22)			2,251				2,540			
l	104,678	1,710	1.63	(0.63)	83,474	1,778	2.13	(1.38)	68,325	1,027	1.50	(0.9)
<b>l rest ing ts</b>												
	3,139,283	244,804	7.80	5.24	3,179,513	279,969	8.81	4.96	3,524,056	367,143	10.42	7.0
	3,824,927	295,791	7.73	5.18	4,144,360	346,820	8.37	4.54	4,867,119	319,566	6.57	3.9
ign ency	2,090,962	56,776	2.72	(6.34)	1,980,922	70,995	3.58	(8.22)	1,877,122	90,945	4.84	6.3

Ch\$ 9,055,172	Ch\$ 597,371	6.60%	2.54%	Ch\$ 9,304,795	Ch\$ 697,784	7.50%	1.97%	Ch\$ 10,268,297	Ch\$ 777,654	7.57%	5.00%
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	Year Ended December 31,											
	2004		2005						2006			
Average	Interest	Average	Average	Average	Interest	Average	Average	Average	Interest	Average	Average	
balance	earned	nominal	real	balance	earned	nominal	real	balance	earned	nominal	real	
(in millions of constant Ch\$ as of December 31, 2006, except percentages)												
<b>Assets</b>												
<b>Non interest earning assets</b>												
<b>Cash and due from banks</b>												
Ch\$	Ch\$	547,701		Ch\$	522,319			Ch\$	322,404			
UF												
Foreign currency		155,582			264,845						532,891	
Total		703,283			787,164						855,295	
<b>Allowances for loan losses</b>												
Ch\$		(173,297)			(141,894)						(139,996)	
UF												
Foreign currency		(2,068)			(1,493)						(251)	
Total		(175,365)			(143,387)						(140,247)	
<b>Fixed assets</b>												
Ch\$		135,467			138,332						145,248	
UF												
Foreign currency		859			1,684						2,300	
Total		136,326			140,016						147,548	
<b>Other assets</b>												
Ch\$		324,642			345,805						356,778	
UF		1,300			1,385						1,536	
Foreign currency		110,396			106,578						118,278	
Total		436,338			453,768						476,592	
<b>Total non interest earning assets</b>												
Ch\$		834,513			864,562						684,434	
UF		1,300			1,385						1,536	
		264,769			371,614						653,218	

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Foreign  
currency

<b>Total</b>	1,100,582		1,237,561		1,339,188	
<b>Total assets</b>						
Ch\$	3,973,796	244,804	4,044,075	279,969	4,208,490	367,143
UF	3,826,227	295,791	4,145,745	346,820	4,868,655	319,566
Foreign currency	2,355,731	56,776	2,352,536	70,995	2,530,340	90,945
<b>Total</b>	Ch\$ 10,155,754	Ch\$ 597,371	Ch\$ 10,542,356	Ch\$ 697,784	Ch\$ 11,607,485	Ch\$ 777,654

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	2004		Year Ended December 31, 2005								2006		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	Average balance	Interest paid								
(in millions of constant Ch\$ as of December 31, 2006, except percentages)																		
<b>Liabilities</b>																		
<b>Interest bearing liabilities</b>																		
<b>Deposits</b>																		
	Ch\$	155,255	Ch\$	3,444	2.22	(0.21)	Ch\$	142,192	Ch\$	5,462	3.84	0.17	Ch\$	138,928	Ch\$	2,843	2.05	(0.5)
Foreign currency																		
Total		155,255		3,444	2.22	(0.21)		142,192		5,462	3.84	0.17		138,928		2,843	2.05	(0.5)
<b>Loans</b>																		
<b>Deposits</b>																		
		2,015,611		47,548	2.36	(0.07)		2,240,994		89,992	4.02	0.34		2,659,507		171,398	6.44	3.7
Foreign currency		751,276		27,738	3.69	1.23		1,060,153		59,637	5.63	1.90		1,628,067		76,108	4.67	2.0
Total		899,333		15,252	1.70	(7.27)		715,591		21,712	3.03	(8.70)		813,958		11,822	1.45	2.8
Total		3,666,220		90,538	2.47	(1.57)		4,016,738		171,341	4.27	(0.86)		5,101,532		259,328	5.08	3.0
<b>Other</b>																		
<b>Bank borrowings</b>																		
		10,646		220	2.07	(0.35)		30,866		973	3.15	(0.49)		11,808		621	5.26	2.6
Foreign currency		2,455		157	6.40	3.87		1,625		97	5.97	2.23		1,127		80	7.10	4.4
Total		13,101		377	2.88	0.44		32,491		1,070	3.29	(0.35)		12,935		701	5.42	2.7
<b>Other</b>																		
<b>Purchase commitments</b>																		
		347,894		4,231	1.22	(1.19)		199,920		5,505	2.75	(0.87)		196,223		9,762	4.97	2.3
Foreign currency		844						1,286						227				
Total		100,631		4,031	4.01	(5.16)		103,608		4,593	4.43	(7.47)		75,498		2,613	3.46	4.8
Total		449,369		8,262	1.84	(2.07)		304,814		10,098	3.31	(3.11)		271,948		12,375	4.55	3.0
<b>Other</b>																		
<b>Mortgage receivables</b>																		
		966,858		80,258	8.30	5.73		629,747		55,649	8.84	4.99		496,053		36,445	7.35	4.6
Foreign currency																		

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al	966,858	80,258	8.30	5.73	629,747	55,649	8.84	4.99	496,053	36,445	7.35	4.6
<b>Other interest-bearing liabilities<sup>(1)</sup></b>												
	132,719	2,226	1.68	(0.73)	169,613	2,157	1.27	(2.30)	201,351	3,556	1.77	(0.7)
	344,325	31,359	9.11	6.52	546,965	51,448	9.41	5.54	657,916	43,564	6.62	3.9
Foreign currency	711,694	10,819	1.52	(7.43)	775,437	19,452	2.51	(9.17)	673,348	13,432	1.99	3.3
al	1,188,738	44,404	3.74	(2.64)	1,492,015	73,057	4.90	(3.00)	1,532,615	60,552	3.95	3.0
<b>Other interest-bearing liabilities</b>												
	2,506,870	54,225	2.16	(0.26)	2,641,393	98,627	3.73	0.07	3,068,889	185,337	6.04	3.3
	2,221,013	142,956	6.44	3.91	2,381,968	172,293	7.23	3.45	2,922,318	159,040	5.44	2.8
Foreign currency	1,711,658	30,102	1.76	(7.21)	1,594,636	45,757	2.87	(8.85)	1,562,804	27,867	1.78	3.1
al	Ch\$ 6,439,541	Ch\$ 227,283	3.53%	(0.67)%	Ch\$ 6,617,997	Ch\$ 316,677	4.79%	(0.86)%	Ch\$ 7,554,011	Ch\$ 372,244	4.93%	3.1

(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,										
	2004		2005				2006				
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, 2006, except percentages)											
<b>Liabilities</b>											
<b>Non interest bearing liabilities</b>											
<b>Non interest bearing demand deposits</b>											
Ch\$	1,607,162			Ch\$ 1,707,308				Ch\$ 1,627,425			
UF	38,032			13,784				7,509			
Foreign currency	563,939			510,638				413,943			
<b>Total</b>	<b>2,209,133</b>			<b>2,231,730</b>				<b>2,048,877</b>			
<b>Contingent liabilities</b>											
Ch\$	62,935			83,138				112,996			
UF	195,974			295,821				378,722			
Foreign currency	247,070			250,360				336,545			
<b>Total</b>	<b>505,979</b>			<b>629,319</b>				<b>828,263</b>			
<b>Other non interest bearing</b>											
Ch\$	204,931			242,174				231,634			
UF	5,094			7,085				12,217			
Foreign currency	105,729			122,040				151,429			
<b>Total</b>	<b>315,754</b>			<b>371,299</b>				<b>395,280</b>			
<b>Shareholders equity</b>											
Ch\$	685,347			692,011				781,054			
UF											
Foreign currency											
<b>Total</b>	<b>685,347</b>			<b>692,011</b>				<b>781,054</b>			
<b>Total non interest bearing liabilities and shareholders equity</b>											

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Ch\$	2,560,375		2,724,631		2,753,109	
UF	239,100		316,690		398,448	
Foreign currency	916,738		883,038		901,917	
<b>Total</b>	<b>3,716,213</b>		<b>3,924,359</b>		<b>4,053,474</b>	
<b>Total liabilities and shareholders equity</b>						
Ch\$	5,067,245	54,225	5,366,024	98,627	5,821,998	185,337
UF	2,460,113	142,956	2,698,658	172,293	3,320,766	159,040
Foreign currency	2,628,396	30,102	2,477,674	45,757	2,464,721	27,867
<b>Total</b>	<b>Ch\$ 10,155,754</b>	<b>Ch\$ 227,283</b>	<b>Ch\$ 10,542,356</b>	<b>Ch\$ 316,677</b>	<b>Ch\$ 11,607,485</b>	<b>Ch\$ 372,244</b>

**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.

	Year Ended December 31,		
	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006, except for percentages)		
<b>Total average interest earning assets</b>			
Ch\$	Ch\$ 3,139,283	Ch\$ 3,179,513	Ch\$ 3,524,056
UF	3,824,927	4,144,360	4,867,119
Foreign currency	2,090,962	1,980,922	1,877,122
<b>Total</b>	<b>9,055,172</b>	<b>9,304,795</b>	<b>10,268,297</b>
<b>Net interest earned<sup>(1)</sup></b>			
Ch\$	190,579	181,342	181,806
UF	152,835	174,527	160,526
Foreign currency	26,674	25,238	63,078
<b>Total</b>	<b>Ch\$ 370,088</b>	<b>Ch\$ 381,107</b>	<b>Ch\$ 405,410</b>
<b>Net interest margin, nominal basis<sup>(2)</sup></b>			
Ch\$	6.07%	5.70%	5.16%
UF	4.00	4.21	3.30
Foreign currency	1.28	1.27	3.36
<b>Total</b>	<b>4.09%</b>	<b>4.10%</b>	<b>3.95%</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 2005 and 2006 and between 2004 and 2005 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)			Increase (Decrease)		
	from 2004 to 2005			from 2005 to 2006		
	due to changes in		Net change from 2004 to 2005	due to changes in		Net change from 2005 to 2006
Volume	Rate	Volume		Rate		
(in millions of constant Ch\$ as of December 31, 2006)						
<b>Assets</b>						
<b>Interest earning assets</b>						
<b>Interbank deposits</b>						
Ch\$						
UF						
Foreign currency	Ch\$	1,996	Ch\$	4,567	Ch\$	6,563
					Ch\$	(3,382)
					Ch\$	2,889
					Ch\$	(493)
Total		1,996		4,567		6,563
						(3,382)
						2,889
						(493)
<b>Financial investments</b>						
Ch\$		(9,602)		6,519		(3,083)
UF		(1,155)		125		(1,030)
Foreign currency		(4,696)		3,979		(717)
						(3,583)
						10,108
						6,525
						(287)
						1,452
						8,245
						3,051
Total		(15,453)		10,623		(4,830)
						(7,038)
						18,066
						11,028
<b>Commercial loans</b>						
Ch\$		14,844		3,155		17,999
UF		39,565		22,891		62,456
Foreign currency		1,987		2,279		4,266
						17,938
						14,145
						(45,659)
						2,770
						(1,419)
						2,814
						1,395
Total		56,396		28,325		84,721
						64,948
						(28,700)
						36,248
<b>Consumer loans</b>						
Ch\$		22,111		(3,264)		18,847
UF		(177)		206		29
Foreign currency						8
						36,760
						11,645
						48,405
						(374)
						(366)
Total		21,934		(3,058)		18,876
						36,768
						11,271
						48,039
<b>Interbank loans</b>						
Ch\$		124		649		773
UF						(963)
Foreign currency		(378)		191		(187)
						(59)
						16
						(43)
Total		(254)		840		586
						(1,022)
						498
						(524)
<b>Leasing contracts</b>						
Ch\$		116		390		506
UF		8,195		2,079		10,274
Foreign currency		61		85		146
						339
						417
						(9,581)
						(1,737)
						388
						453
Total		8,372		2,554		10,926
						8,248
						(8,776)
						(528)
<b>Foreign trade loans</b>						
Ch\$						



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UF	29	359	388	74	(443)	(369)
Foreign currency	(2,499)	6,359	3,860	734	14,711	15,445
<b>Total</b>	<b>(2,470)</b>	<b>6,718</b>	<b>4,248</b>	<b>808</b>	<b>14,268</b>	<b>15,076</b>
<b>Mortgage loans</b>						
Ch\$						
UF	(35,393)	14,153	(21,240)	(11,890)	(16,858)	(28,748)
Foreign currency						
<b>Total</b>	<b>(35,393)</b>	<b>14,153</b>	<b>(21,240)</b>	<b>(11,890)</b>	<b>(16,858)</b>	<b>(28,748)</b>
<b>Contingent loans</b>						
Ch\$						
UF	498	(625)	(127)	521	(493)	28
Foreign currency	871	(515)	356	630	(277)	353
Foreign currency	1	265	266	125	17	142
<b>Total</b>	<b>1,370</b>	<b>(875)</b>	<b>495</b>	<b>1,276</b>	<b>(753)</b>	<b>523</b>
<b>Past due loans</b>						
Ch\$						
UF	(94)	344	250	159	(301)	(142)
Foreign currency	(166)	(38)	(204)	(149)	(460)	(609)
Foreign currency		22	22			
<b>Total</b>	<b>(260)</b>	<b>328</b>	<b>68</b>	<b>10</b>	<b>(761)</b>	<b>(751)</b>
<b>Total interest earning assets</b>						
Ch\$						
UF	27,997	7,168	35,165	51,171	36,003	87,174
Foreign currency	11,769	39,260	51,029	46,685	(73,939)	(27,254)
Foreign currency	(3,528)	17,747	14,219	(9,130)	29,080	19,950
<b>Total</b>	<b>Ch\$ 36,238</b>	<b>Ch\$ 64,175</b>	<b>Ch\$ 100,413</b>	<b>Ch\$ 88,726</b>	<b>Ch\$ (8,856)</b>	<b>Ch\$ 79,870</b>

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	Increase (Decrease) from 2004 to 2005 due		Net change from 2004 to 2005	Increase (Decrease) from 2005 to 2006		Net change from 2005 to 2006						
	to changes in			due to changes in								
	Volume	Rate		Volume	Rate							
(in millions of constant Ch\$ as of December 31, 2006)												
<b>Liabilities</b>												
<b>Interest bearing liabilities</b>												
<b>Savings accounts</b>												
Ch\$												
UF	Ch\$	(312)	Ch\$	2,330	Ch\$	2,018	Ch\$	(123)	Ch\$	(2,496)	Ch\$	(2,619)
Foreign currency												
Total		(312)		2,330		2,018		(123)		(2,496)		(2,619)
<b>Time deposits</b>												
Ch\$												
UF		5,830		36,614		42,444		19,204		62,202		81,406
Foreign currency												
UF		14,030		17,869		31,899		27,843		(11,372)		16,471
Foreign currency												
UF		(3,622)		10,082		6,460		2,660		(12,550)		(9,890)
Total		16,238		64,565		80,803		49,707		38,280		87,987
<b>Central Bank borrowings</b>												
Ch\$												
UF		590		163		753		(794)		442		(352)
Foreign currency												
UF		(50)		(10)		(60)		(33)		16		(17)
Total		540		153		693		(827)		458		(369)
<b>Repurchase agreements</b>												
Ch\$												
UF		(2,372)		3,646		1,274		(104)		4,361		4,257
Foreign currency												
UF		122		440		562		(1,095)		(885)		(1,980)
Total		(2,250)		4,086		1,836		(1,199)		3,476		2,277
<b>Mortgage finance bonds</b>												
Ch\$												
UF		(29,507)		4,898		(24,609)		(10,704)		(8,500)		(19,204)
Foreign currency												
UF												
Total		(29,507)		4,898		(24,609)		(10,704)		(8,500)		(19,204)
<b>Other interest bearing liabilities</b>												
Ch\$												
UF		539		(608)		(69)		455		944		1,399
Foreign currency												
UF		19,029		1,060		20,089		9,180		(17,064)		(7,884)
Foreign currency												
UF		1,045		7,588		8,633		(2,356)		(3,664)		(6,020)
Total		20,613		8,040		28,653		7,279		(19,784)		(12,505)
<b>Total interest bearing liabilities</b>												
Ch\$												
UF		4,587		39,815		44,402		18,761		67,949		86,710
Foreign currency												
UF		3,190		26,147		29,337		26,163		(39,416)		(13,253)

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Foreign currency	(2,455)	18,110	15,655	(791)	(17,099)	(17,890)
Total	Ch\$ 5,322	Ch\$ 84,072	Ch\$ 89,394	Ch\$ 44,133	Ch\$ 11,434	Ch\$ 55,567

**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
				Nominal Rate as of
	2004	2005	2006	%
(in millions of constant Ch\$ as of December 31, 2006, 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\$ 1,132,234	Ch\$ 696,140	Ch\$ 492,748	4.49%
Other government instruments	13,991	20,142	436	3.46
Subtotal	1,146,225	716,282	493,184	4.49
<b>Other Financial Instruments</b>				
Promissory notes for deposits in Chilean banks	203,154	179,577	256,633	5.30
Other foreign instruments issued	135,079	309,093	241,278	5.49
Bonds from other Chilean companies	107,378	100,268	97,712	6.83
Instruments issued by foreign Governments or Central Banks	17,619	13,112	54,749	6.76
Mortgage bonds of Chilean banks	1,320	34,425	49,938	4.57
Other instruments issued in Chile	8,331	1,187	3,878	4.41
Bonds from Chilean banks		13,511		
Subtotal	472,881	651,173	704,188	5.63
Total	Ch\$ 1,619,106	Ch\$ 1,367,455	Ch\$ 1,197,372	5.16%

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\$179,800 million, Ch\$91,901 million, Ch\$55,824 million as of December 31, 2004, 2005 and 2006, respectively. Other Financial Instruments include instruments sold under agreements to repurchase to customers and financial instruments, amounting to Ch\$187,434 million, Ch\$157,447 million, Ch\$217,824 million as of December 31, 2004, 2005 and 2006, 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*

**Weighted Average**  
**Nominal Rate as of**  
**December 31, 2006**

**2004**                      **As of December 31,**  
**2005**                      **2006**

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	(in millions of constant Ch\$ as of December 31, 2006)			%
Instruments issued by foreign Governments or Central Banks	Ch\$ 11,830	Ch\$ 23,534	Ch\$ 40,066	4.45%
Bonds from other Chilean companies	6,926	1,628		
Other foreign instruments issued	10,139			
Total	Ch\$ 28,895	Ch\$ 25,162	Ch\$ 40,066	4.45%

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As of December 31, the portfolio of available for sale securities include a net unrealized loss of Ch\$99 million, Ch\$4 million and Ch\$9 million in 2004, 2005 and 2006, respectively, recorded in equity.

*(ii) Held to maturity*

	As of December 31,			Weighted Average
				Nominal Rate as of
	2004	2005	2006	December 31, 2006
	(in millions of constant Ch\$ as of December 31, 2006)			%
Instruments issued by Foreign Governments or Central Banks	Ch\$ 17,789	Ch\$ 15,739	Ch\$ 16,003	5.09%
Total	Ch\$ 17,789	Ch\$ 15,739	Ch\$ 16,003	5.09%

*(c) Maturity of Financial Investment:*

The maturities of the securities trading, held to maturity and available for sale, as of December 31, 2006 are as follows:

	Estimated
	Fair Value
	(in millions of constant Ch\$ as of December 31, 2006)
Trading securities <sup>(1)</sup> :	
Due in one year or less	1,197,372
Securities available for sale:	
Due in one year or less	40,066
Securities held to maturity:	
Due in one year or less	16,003

(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,								
	2004			2005			2006		
	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value
(in millions of constant Ch\$ as of December 31, 2006)									
Instruments issued by Foreign Governments or Central Banks	Ch\$ 17,791	Ch\$ (2)	Ch\$ 17,789	Ch\$ 15,740	Ch\$ (1)	Ch\$ 15,739	Ch\$ 16,003	Ch\$	Ch\$ 16,003
Total	Ch\$ 17,791	Ch\$ (2)	Ch\$ 17,789	Ch\$ 15,740	Ch\$ (1)	Ch\$ 15,739	Ch\$ 16,003	Ch\$	Ch\$ 16,003



**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.

	2002	2003	As of December 31, 2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)				
<b>Commercial loans:</b>					
General commercial loans	Ch\$ 2,868,140	Ch\$ 2,864,592	Ch\$ 3,032,891	Ch\$ 3,584,631	Ch\$ 3,970,909
Foreign trade loans	669,805	713,707	633,650	562,336	677,296
Interbank loans	60,028	14,336	16,076	25,537	43,019
Leasing contracts	272,767	291,602	363,713	464,356	539,176
Other outstanding loans	424,088	478,124	990,316	1,363,056	1,762,225
<b>Subtotal commercial loans</b>	<b>4,294,828</b>	<b>4,362,361</b>	<b>5,036,646</b>	<b>5,999,916</b>	<b>6,992,625</b>
<b>Mortgage loans:</b>					
Residential	635,965	654,964	469,469	375,689	323,288
Commercial	664,146	568,046	397,766	308,735	257,930
<b>Subtotal mortgage loans</b>	<b>1,300,111</b>	<b>1,223,010</b>	<b>867,235</b>	<b>684,424</b>	<b>581,218</b>
<b>Consumer loans</b>	<b>575,434</b>	<b>638,252</b>	<b>731,810</b>	<b>882,291</b>	<b>1,072,324</b>
<b>Past due loans:</b>					
Commercial loans	141,415	98,172	71,671	54,410	46,491
Residential mortgage loans	11,219	12,122	13,333	14,154	8,901
Consumer loans	4,981	3,653	3,906	3,951	5,708
Factoring loans					5
Leasing contracts	1,097	439	666	332	580
<b>Subtotal past due loans</b>	<b>158,712</b>	<b>114,386</b>	<b>89,576</b>	<b>72,847</b>	<b>61,685</b>
<b>Contingent loans</b>	<b>418,051</b>	<b>444,101</b>	<b>561,564</b>	<b>738,770</b>	<b>987,314</b>
<b>Total loans</b>	<b>Ch\$ 6,747,136</b>	<b>Ch\$ 6,782,110</b>	<b>Ch\$ 7,286,831</b>	<b>Ch\$ 8,378,248</b>	<b>Ch\$ 9,695,166</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.

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.

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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 28 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, 2006**

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2006:

	Balance as of December 31, 2006	Due within 1 month	Due after 1 month but within 6 months <small>(in millions of constant Ch\$ as of December 31, 2006)</small>	Due after 6 months but within 12 months	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years
Commercial loans	Ch\$ 3,970,909	Ch\$ 534,207	Ch\$ 1,002,024	Ch\$ 407,173	Ch\$ 737,325	Ch\$ 499,733	Ch\$ 790,447
Consumer loans	1,072,324	354,369	151,718	140,281	340,694	79,226	6,036
Mortgage loans	581,218	6,082	26,165	31,678	119,576	110,917	286,800
Foreign trade loans	677,296	147,239	440,109	44,414	21,895	20,654	2,985
Interbank loans	43,019	43,019					
Leasing contracts	539,176	16,934	66,689	81,855	197,125	82,600	93,973
Other outstanding loans	1,762,225	268,807	193,949	70,419	175,275	157,926	895,849
Past due loans	61,685	61,685					
Subtotal	8,707,852	1,432,342	1,880,654	775,820	1,591,890	951,056	2,076,090
Contingent loans	987,314	133,687	335,525	212,382	260,207	44,995	518
Total loans	Ch\$ 9,695,166	Ch\$ 1,566,029	Ch\$ 2,216,179	Ch\$ 988,202	Ch\$ 1,852,097	Ch\$ 996,051	Ch\$ 2,076,608

The following table presents the interest rate sensitivity of our outstanding loans due after one year as of December 31, 2006, not including contingent loans:

	As of December 31, 2006 (in millions of constant Ch\$ as of December 31, 2006)
Variable rate	
Ch\$	Ch\$ 107,484
UF	1,246,538
Foreign currency	130,972
Total	1,484,994
Fixed rate	
Ch\$	680,195
UF	2,381,567
Foreign currency	72,280
Total	3,134,042

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Total	Ch\$	4,619,036
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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.

	2004		As of December 31, 2005		2006	
	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio
(in millions of constant Ch\$ as of December 31, 2006, except for percentages)						
Agriculture, Livestock, Forestry, Agribusiness, Fishing:						
Agriculture and livestock	Ch\$ 222,472	3.31%	Ch\$ 166,406	2.18%	Ch\$ 183,242	2.10%
Fruit	177,955	2.65	175,514	2.30	187,666	2.16
Forestry and wood extraction	20,430	0.30	22,324	0.29	16,061	0.18
Fishing	107,113	1.59	54,413	0.71	44,657	0.51
Subtotal	527,970	7.85	418,657	5.48	431,626	4.95
Mining and Petroleum:						
Mining and quarries	26,489	0.39	30,322	0.40	22,044	0.25
Natural gas and crude oil extraction	8,838	0.13	35,633	0.47	758	0.01
Subtotal	35,327	0.52	65,955	0.87	22,802	0.26
Manufacturing:						
Tobacco, food and beverages	145,643	2.16	132,077	1.73	154,992	1.78
Textiles, clothing and leather goods	71,691	1.07	69,910	0.92	91,072	1.05
Wood and wood products	49,806	0.74	56,110	0.73	48,922	0.56
Paper, printing and publishing	25,623	0.38	40,905	0.54	67,927	0.78
Oil refining, carbon and rubber	87,117	1.29	98,347	1.29	73,629	0.85
Production of basic metal, non-mineral, machine and equipment	255,980	3.81	219,464	2.87	215,799	2.48
Other manufacturing industries	50,215	0.75	62,489	0.82	65,080	0.75
Subtotal	686,075	10.20	679,302	8.90	717,421	8.25
Electricity, Gas and Water:						
Electricity, gas and water	61,631	0.92	68,230	0.89	61,617	0.71
Subtotal	61,631	0.92	68,230	0.89	61,617	0.71
Construction:						
Residential buildings	174,386	2.59	217,223	2.84	267,697	3.07
Other constructions	346,713	5.15	460,412	6.03	475,017	5.46
Subtotal	521,099	7.74	677,635	8.87	742,714	8.53
Commerce:						
Wholesale	280,386	4.17	300,608	3.93	374,242	4.30
Retail, restaurants and hotels	514,386	7.65	444,617	5.82	511,416	5.87
Subtotal	794,772	11.82	745,225	9.75	885,658	10.17
Transport, Storage and Communications:						
Transport and storage	168,633	2.51	182,278	2.39	225,216	2.59
Communications	36,820	0.55	24,306	0.32	31,274	0.36
Subtotal	205,453	3.06	206,584	2.71	256,490	2.95
Financial Services:						

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Financial and insurance companies	636,573	9.47	772,904	10.11	953,438	10.95
Holding companies and other financial services	703,254	10.46	696,146	9.11	834,467	9.58
Subtotal	1,339,827	19.93	1,469,050	19.22	1,787,905	20.53
Community, Social and Personal Services:						
Community, social and personal services	272,875	4.06	1,045,696	13.69	1,166,204	13.39
Subtotal	272,875	4.06	1,045,696	13.69	1,166,204	13.39
Consumer Loans	928,922	13.81	888,552	11.63	1,080,638	12.41
Residential Mortgage Loans	1,351,316	20.09	1,374,592	17.99	1,554,777	17.85
Total	Ch\$ 6,725,267	100.00%	Ch\$ 7,639,478	100.00%	Ch\$ 8,707,852	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,		
	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)		
	Ch\$	Ch\$	Ch\$
Argentina	6,550	1,335	108
Australia	9	334	17,776
Austria	163	4,488	4,356
Belgium	424	745	33,340
Brazil	55,714	61,312	68,456
British West Indies	7,669	4,545	
Canada	449	1,259	2,489
China	24,089	24,712	39,832
Colombia	5,750	309	219
Czech Repblic			30
Dinamarca	6	15	
Ecuador	175	6	
El Salvador	2,538	45	45
Finland	4,258	2,465	539
France	14,613	5,517	13,272
Germany	4,938	725	2,892
Holland	156		
Hong Kong	244	59	7,803
India	2,692	547	11,100
Ireland		2,991	
Israel	1	70	74
Island			125
Italy	3,801	1,932	1,243
Japan.	11,555	3,522	3,858
Mauricio	13		
Mexico	30,254	11,318	3,154
Morocco	34		
New Zealand	3	66	353
Norway	12	3	85
Oman			386
Panama	4,816	736	3,005
Paraguay			2,278
Perú	17,452	6,087	4,965
Portugal	548	486	
Singapore	54	992	62
South Africa		10	214
South Korea	17,445	7,261	38,537
Spain	5,768	6	129
Switzerland	101		93
Sweden	1,612		414
Taiwan	2,146	4,144	845
United Arab Emirates	644	475	133
United Kingdom	41,827	32,066	41,127
United States	26,218	18,053	8,039
Uruguay			1,692
Venezuela	5,960	5,300	5,587

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Total	Ch\$ 300,701	Ch\$ 203,936	Ch\$ 318,655
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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,		
	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)		
	Ch\$	Ch\$	Ch\$
Australia	59	23	77
Austria	2	40	135
Belgium	114	87	271
Canada	266	315	403
China	179	63	73
Denmark	68	23	36
Finland	11	14	106
France	447	501	166
Germany	4,450	3,790	7,148
Italy	2,215	12,221	4,611
Japan	1,270	1,475	14,274
Netherlands	157	59	
Norway	53	34	103
Spain	186	319	572
Sweden	3	32	163
Switzerland	216	172	105
United Kingdom	734	922	563
United States	122,250	33,447	30,919
<b>Total</b>	<b>Ch\$ 132,680</b>	<b>Ch\$ 53,537</b>	<b>Ch\$ 59,725</b>

**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\$9,168 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	Limit in UF
Credit committee, including members of the board of directors	up to legal limits
Chief executive officer, chairman and senior credit risk officer	up to UF 500,000
Chief executive officer, chairman or senior credit risk officer (any two of them)	up to UF 350,000
Chief executive officer	up to UF 225,000
Senior credit risk officers	up to UF 225,000
Executive credit risk officers	up to UF 112,500
Other credit risk officers	up to UF 60,000
Executive vice president of corporate banking	up to UF 50,000
Other department heads	up to UF 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 range of estimated losses		Consumer loans past due status <sup>(1)</sup>		Residential mortgage loans past due status <sup>(1)</sup>		Allowances as a percentage of aggregate exposure
	From	To	From (Days)	To	From (Days)	To	
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 under the previous guidelines, with the exception of 2004, 2005 and 2006:

**Consolidated Risk Index****At December 31,**

2002	3.00%
2003	2.36
2004 <sup>(1)</sup>	2.23
2005 <sup>(1)</sup>	1.72
2006 <sup>(1)</sup>	1.50%

(1) The new guidelines determine the risk index, by dividing allowances for loan losses by total loans.

The chart below illustrates the evolution of our unconsolidated risk index over the last five years under the previous guidelines, with the exception of 2004, 2005 and 2006:

**Consolidated Risk Index****At December 31,**

2002	3.10%
2003	2.41

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2004 <sup>(1)</sup>	2.23
2005 <sup>(1)</sup>	1.70
2006 <sup>(1)</sup>	1.48%

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(1) The new guidelines determine the risk index, by dividing allowances for loan losses by total loans.

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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 1.48% as of December 31, 2006. At the same date, our average unconsolidated risk index was 1.48%. Our average unconsolidated risk index has continued to improve since 2002 when it was highest as a result of our merger with Banco de A. Edwards in that year. As of December 31, 2004, our unconsolidated risk index was greater than the average for all financial institutions in Chile primarily as a result of higher additional allowances maintained by us as compared to those maintained by the financial system.

*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.

	2002	2003	As of December 31, 2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006, except for percentages)				
Allowances based on risk index	Ch\$ 202,414	Ch\$ 160,058	Ch\$ 162,664	Ch\$ 144,272	Ch\$ 144,979
Allowances based on 0.75%	50,604	50,866	n/a	n/a	n/a
Global allowances for loan losses	156,668	134,452	n/a	n/a	n/a
Individual allowances for loan losses	57,418	37,821			
Required minimum allowances	214,086	172,273	141,813	122,835	124,371
Voluntary allowances	22,511	22,288			
Additional allowances			20,851	21,437	20,608
Total allowances for loan losses	Ch\$ 236,597	Ch\$ 194,561	Ch\$ 162,664	Ch\$ 144,272	Ch\$ 144,979
Total allowances for loan losses as a percentage of total loans	3.51%	2.87%	2.23%	1.72%	1.50%

**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, 2002				Percentage
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	of Classified Loans
	(in millions of constant Ch\$ as of December 31, 2006)				
A	Ch\$ 2,422,060	Ch\$ 387,805	Ch\$ 849,403	Ch\$ 3,659,268	54.69%
B	2,469,993	42,428	68,925	2,581,346	38.57
B	237,889	10,306	21,394	269,589	4.03
C	131,664	8,849		140,513	2.10
D	33,504	7,579		41,083	0.61
Total classified loans	Ch\$ 5,295,110	Ch\$ 456,967	Ch\$ 939,722	Ch\$ 6,691,799	100.00%
Total loans	Ch\$ 5,350,447	Ch\$ 456,967	Ch\$ 939,722	Ch\$ 6,747,136	
Percentage classified	98.97%	100.00%	100.00%	99.18%	
Category	As of December 31, 2003				Percentage
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	of Classified Loans
	(in millions of constant Ch\$ as of December 31, 2006)				
A	Ch\$ 2,414,694	Ch\$ 464,893	Ch\$ 891,324	Ch\$ 3,770,911	55.97%
B	2,503,231	35,032	76,373	2,614,636	38.82
B	194,883	9,059	22,867	226,809	3.37
C	71,663	7,489		79,152	1.18
D	38,719	5,528		44,247	0.66
Total classified loans	Ch\$ 5,223,190	Ch\$ 522,001	Ch\$ 990,564	Ch\$ 6,735,755	100.00%
Total loans	Ch\$ 5,269,545	Ch\$ 522,001	Ch\$ 990,564	Ch\$ 6,782,110	
Percentage classified	99.12%	100.00%	100.00%	99.32%	
Individual Analysis Category	As of December 31, 2004 (1)			Total	Percentage
	Commercial Loans	Consumer Loans	Residential Mortgage		

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	Loans		Loans		of Classified
	(in millions of constant Ch\$ as of December 31, 2006)				
	Ch\$	Ch\$	Ch\$	Ch\$	Loans
A1	9,544	15,850	53,366	9,544	0.18%
A2	1,608,467	13,122	33,907	1,677,683	31.38
A3	1,399,710	29,476	63,993	1,446,739	27.06
B	1,699,442	6,449	9,959	1,792,911	33.54
C1	195,114	913	4,439	211,522	3.96
C2	63,247	348	1,058	68,599	1.28
C3	29,333	394	1,002	30,739	0.57
C4	51,985	264	95	53,381	1.00
D1	36,817	519	325	37,176	0.70
D2	16,946			17,790	0.33
Subtotal classified loans	Ch\$ 5,110,605	Ch\$ 67,335	Ch\$ 168,144	Ch\$ 5,346,084	100.00%

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



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Group Analysis Category	As of December 31, 2004 (1)				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage	Total	
			Loans	Loans	
(in millions of constant Ch\$ as of December 31, 2006)					
A	Ch\$ 160,066	Ch\$ 605,840	Ch\$ 968,109	Ch\$ 1,734,015	89.94%
B	48,717	40,749	49,648	139,114	7.21
B-	11,685	9,137	18,341	39,163	2.03
C	1,746	6,960		8,706	0.45
D	1,492	5,695		7,187	0.37
Subtotal classified loans	Ch\$ 223,706	Ch\$ 668,381	Ch\$ 1,036,098	Ch\$ 1,928,185	100.00%
Total classified loans	Ch\$ 5,334,311	Ch\$ 735,716	Ch\$ 1,204,242	Ch\$ 7,274,269	
Total loans	Ch\$ 5,346,873	Ch\$ 735,716	Ch\$ 1,204,242	Ch\$ 7,286,831	
Percentage classified	99.77%	100.00%	100.00%	99.83%	

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

Individual Analysis Category	As of December 31, 2005 (1)				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage	Total	
			Loans	Loans	
(in millions of constant Ch\$ as of December 31, 2006)					
A1	Ch\$ 12,972	Ch\$	Ch\$	Ch\$ 12,972	0.21%
A2	1,782,632	18,147	52,809	1,853,588	30.12
A3	1,775,132	13,509	32,813	1,821,454	29.60
B	2,011,815	41,578	78,569	2,131,962	34.64
C1	182,176	7,183	8,955	198,314	3.22
C2	41,922	1,542	4,869	48,333	0.79
C3	16,072	409	1,188	17,669	0.29
C4	32,496	384	414	33,294	0.54
D1	22,418	384	422	23,224	0.38
D2	12,312	810	68	13,190	0.21
Subtotal classified loans	Ch\$ 5,889,947	Ch\$ 83,946	Ch\$ 180,107	Ch\$ 6,154,000	100.00%

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

Group Analysis Category	As of December 31, 2005 (1)				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage	Total	
			Loans	Loans	
(in millions of constant Ch\$ as of December 31, 2006)					
A	Ch\$ 154,086	Ch\$ 734,743	Ch\$ 1,136,426	Ch\$ 2,025,255	91.57%
B	49,433	40,594	43,457	133,484	6.03
B-	9,244	10,643	14,916	34,803	1.57
C	1,235	8,655		9,890	0.45

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D	824	7,662	8,486	0.38	
Subtotal classified loans	Ch\$ 214,822	Ch\$ 802,297	Ch\$ 1,194,799	Ch\$ 2,211,918	100.00%
Total classified loans	Ch\$ 6,104,769	Ch\$ 886,243	Ch\$ 1,374,906	Ch\$ 8,365,918	
Total loans	Ch\$ 6,117,099	Ch\$ 886,243	Ch\$ 1,374,906	Ch\$ 8,378,248	
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 Analysis Category	As of December 31, 2006 (1)				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	
	(in millions of constant Ch\$ as of December 31, 2006)				
A1	Ch\$ 150,144	Ch\$ 2	Ch\$	Ch\$ 150,146	2.12%
A2	2,042,153	15,114	47,725	2,104,992	29.89
A3	2,076,506	13,138	25,787	2,115,431	30.04
B	2,231,058	68,187	79,558	2,378,803	33.78
C1	163,651	11,577	9,059	184,287	2.62
C2	42,031	1,649	3,862	47,542	0.68
C3	11,205	594	653	12,452	0.18
C4	19,010	364	360	19,734	0.28
D1	17,138	364	221	17,723	0.25
D2	9,909	1,171	45	11,125	0.16
Subtotal classified loans	Ch\$ 6,762,805	Ch\$ 112,160	Ch\$ 167,270	Ch\$ 7,042,235	100.00%

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

Group Analysis Category	As of December 31, 2006 (1)				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	
	(in millions of constant Ch\$ as of December 31, 2006)				
A	Ch\$ 164,571	Ch\$ 842,519	Ch\$ 1,329,388	Ch\$ 2,336,478	90.44%
B	53,705	78,612	45,349	177,666	6.88
B-	9,285	18,655	12,784	40,724	1.58
C	1,508	15,205		16,713	0.65
D	680	10,881		11,561	0.45
Subtotal classified loans	Ch\$ 229,749	Ch\$ 965,872	Ch\$ 1,387,521	Ch\$ 2,583,142	100.00%
Total classified loans	Ch\$ 6,992,554	Ch\$ 1,078,032	Ch\$ 1,554,791	Ch\$ 9,625,377	
Total loans	Ch\$ 7,062,343	Ch\$ 1,078,032	Ch\$ 1,554,791	Ch\$ 9,695,166	
Percentage classified	99.01%	100.00%	100.00%	99.28%	

(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 As of December 31,</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(in millions of constant Ch\$ as of December 31, 2006)</b>				
Current	Ch\$ 6,234,275	Ch\$ 6,396,417	Ch\$ 6,854,727	Ch\$ 8,048,921	Ch\$ 9,272,361
Overdue 1-29 days	28,708	22,309	29,572	46,219	27,196
Overdue 30-89 days	24,349	14,760	12,255	6,344	15,269
Overdue 90 days or more ( past due )	156,341	114,386	89,576	72,828	61,685
<b>Total loans</b>	<b>Ch\$ 6,443,673</b>	<b>Ch\$ 6,547,872</b>	<b>Ch\$ 6,986,130</b>	<b>Ch\$ 8,174,312</b>	<b>Ch\$ 9,376,511</b>

	<b>Foreign Loans As of December 31,</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(in millions of constant Ch\$ as of December 31, 2006)</b>				
Current	Ch\$ 301,092	Ch\$ 234,238	Ch\$ 300,701	Ch\$ 203,917	Ch\$ 318,655
Overdue 1-29 days					
Overdue 30-89 days					
Overdue 90 days or more ( past due )	2,371			19	
<b>Total loans</b>	<b>Ch\$ 303,463</b>	<b>Ch\$ 234,238</b>	<b>Ch\$ 300,701</b>	<b>Ch\$ 203,936</b>	<b>Ch\$ 318,655</b>

	<b>Total Loans As of December 31,</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(in millions of constant Ch\$ as of December 31, 2006)</b>				
Current	Ch\$ 6,535,367	Ch\$ 6,630,655	Ch\$ 7,155,428	Ch\$ 8,252,838	Ch\$ 9,591,016
Overdue 1-29 days	28,708	22,309	29,572	46,219	27,196
Overdue 30-89 days	24,349	14,760	12,255	6,344	15,269
Overdue 90 days or more ( past due )	158,712	114,386	89,576	72,847	61,685
<b>Total loans</b>	<b>Ch\$ 6,747,136</b>	<b>Ch\$ 6,782,110</b>	<b>Ch\$ 7,286,831</b>	<b>Ch\$ 8,378,248</b>	<b>Ch\$ 9,695,166</b>

Overdue loans expressed as a percentage of total loans	3.14%	2.23%	1.80%	1.50%	1.07%
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Past due loans as a percentage of total loans	2.35%	1.69%	1.23%	0.87%	0.64%
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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\$5,417 million for the year ended December 31, 2006.

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

	2002	2003	As of December 31, 2004		2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)					
Ch\$	Ch\$ 5,332	Ch\$ 4,663	Ch\$ 4,453	Ch\$ 4,203	Ch\$ 4,773	
UF	237	268	550	157		
<b>Total</b>	<b>Ch\$ 5,569</b>	<b>Ch\$ 4,931</b>	<b>Ch\$ 5,003</b>	<b>Ch\$ 4,360</b>	<b>Ch\$ 4,773</b>	

The amount of interest that we would have recorded on these loans for the year ended December 31, 2006 if these loans had been earning a market interest rate was Ch\$269 million.

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

	2004	As of December 31, 2005		2006
	(in millions of constant Ch\$ as of December 31, 2006)			
Total other restructured loans	Ch\$ 82,795	Ch\$ 73,689	Ch\$ 68,789	

During the year ended December 31, 2006, interest recorded in income on these loans amounted to Ch\$6,928 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 year 2006, 2005 and 2004 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.

	2002	2003	As of December 31, 2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006, except for percentages)				
Total loans	Ch\$ 6,747,136	Ch\$ 6,782,110	Ch\$ 7,286,831	Ch\$ 8,378,248	Ch\$ 9,695,166
Substandard loans <sup>(1)</sup>	Ch\$ 451,185	Ch\$ 350,208	Ch\$ 474,263	Ch\$ 387,203	Ch\$ 361,861
Substandard loans as a percentage of total Loans	6.69%	5.16%	6.51%	4.62%	3.73%
Amounts past due <sup>(2)</sup>					
To the extent secured <sup>(3)</sup>	Ch\$ 101,293	Ch\$ 76,565	Ch\$ 60,501	Ch\$ 51,309	Ch\$ 42,178
To the extent unsecured	57,419	37,821	29,075	21,538	19,507
Total amount past due	Ch\$ 158,712	Ch\$ 114,386	Ch\$ 89,576	Ch\$ 72,847	Ch\$ 61,685
Amounts past due as a percentage of total loans	2.35%	1.69%	1.23%	0.87%	0.64%
To the extent secured <sup>(2)</sup>	1.50	1.13	0.83	0.61	0.44
To the extent unsecured	0.85	0.56	0.40	0.26	0.20
Allowances for loans losses as a percentage of:					
Total loans	3.51	2.87	2.23	1.72	1.50
Total loans excluding contingent loans	3.74	3.07	2.42	1.89	1.66
Total amounts past due	149.07	170.09	181.59	198.05	235.03
Total amounts past due-unsecured	412.05%	514.43%	559.46%	669.85%	743.21%

(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:

	2002	2003	As of December 31, 2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)				
Allowances for loan losses at beginning of period	Ch\$ 254,921	Ch\$ 236,597	Ch\$ 194,561	Ch\$ 162,664	Ch\$ 144,272
Charge-offs	(121,492)	(104,227)	(104,781)	(68,757)	(60,671)
Allowances established	137,019	66,748	79,404	57,795	64,836
Allowances released <sup>(1)</sup>	(26,809)	(1,577)	(1,647)	(1,625)	(508)
Price-level restatement <sup>(2)</sup>	(7,042)	(2,980)	(4,873)	(5,805)	(2,950)
Allowances for loan losses at end of period	Ch\$ 236,597	Ch\$ 194,561	Ch\$ 162,664	Ch\$ 144,272	Ch\$ 144,979
Ratio of charge-offs to average loans	1.82%	1.53%	1.49%	0.90%	0.68%
Allowances for loan losses at end of period as a percentage of total loans	3.51%	2.87%	2.23%	1.72%	1.50%

(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, 2006.

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.

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:

	2002	2003	Year ended December 31, 2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)				
Consumer loans	Ch\$ 25,258	Ch\$ 20,766	Ch\$ 17,854	Ch\$ 19,860	Ch\$ 23,127
Residential mortgage loans	6,906	16,300	12,624	13,551	9,786
Commercial loans	85,056	64,549	71,691	34,619	26,856
Leasing contracts	4,272	2,612	2,612	712	882
Foreign loans				15	20
Total	Ch\$ 121,492	Ch\$ 104,227	Ch\$ 104,781	Ch\$ 68,757	Ch\$ 60,671





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

	Year ended December 31,				
	2002	2003	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)				
Consumer loans	Ch\$ 3,493	Ch\$ 6,976	Ch\$ 9,008	Ch\$ 11,502	Ch\$ 8,390
Residential mortgage loans	458	3,483	4,505	6,531	6,940
Commercial loans	7,269	14,236	16,484	15,141	12,733
Leasing contracts	1,040	1,122			
Investments		868			
Subtotal	12,260	26,685	29,997	33,174	28,063
Recoveries and sales of loans reacquired from the Central Bank	786	844	5,687	505	37
Total	Ch\$ 13,046	Ch\$ 27,529	Ch\$ 35,684	Ch\$ 33,679	Ch\$ 28,100

**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

	2002				2003			
	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\$ 161,215	3.01%	2.40%	79.30%	Ch\$ 130,974	2.49%	1.93%	77.70%
Consumer loans	21,808	4.77	0.32	6.77	19,444	3.72	0.29	7.70
Residential mortgage loans	6,309	0.67	0.09	13.93	6,645	0.67	0.10	14.60
Total allocated allowances	Ch\$ 189,332	2.81%	2.81%	100.00%	Ch\$ 157,063	2.32%	2.32%	100.00%
Leasing contracts	11,619	0.17	0.17		8,969	0.13	0.13	
Foreign loans	13,135	0.20	0.20		6,241	0.09	0.09	
Voluntary allowances	22,511	0.33	0.33		22,288	0.33	0.33	
Total allowances	Ch\$ 236,597	3.51%	3.51%		Ch\$ 194,561	2.87%	2.87%	

	2004		
	Allowance amount <sup>(1)</sup>	Allowance amount as a percentage of loans in	Loans in category as percentage of total
	Allowance amount as a percentage of total		

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		category	loans	loans (2)
Commercial loans	Ch\$ 99,320	1.86%	1.36%	73.37%
Consumer loans	24,829	3.37	0.34	10.10
Residential mortgage loans	6,637	0.55	0.09	16.53
Total allocated allowances	Ch\$ 130,786	1.79%	1.79%	100.00%
Leasing contracts	6,200	0.09	0.09	
Foreign loans	4,827	0.07	0.07	
Additional allowances <sup>(3)</sup>	20,851	0.28	0.28	
Total allowances	Ch\$ 162,664	2.23%	2.23%	

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	2005					2006			
	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\$ 79,156	1.29%	0.94%	73.01%	Ch\$ 70,047	0.99%	0.73%	72.84%	
Consumer loans	26,161	2.95	0.31	10.58	36,682	3.40	0.38	11.12	
Residential mortgage loans	10,101	0.73	0.13	16.41	10,118	0.65	0.10	16.04	
Total allocated allowances	Ch\$ 115,418	1.38%	1.38%	100.00%	Ch\$ 116,847	1.21%	1.21%	100.00%	
Leasing contracts	6,009	0.07	0.07		6,240	0.06	0.06		
Foreign loans	1,408	0.02	0.02		1,284	0.01	0.01		
Additional allowances <sup>(3)</sup>	21,437	0.25	0.25		20,608	0.22	0.22		
Total allowances	Ch\$ 144,272	1.72%	1.72%		Ch\$ 144,979	1.50%	1.50%		

(1) In millions of constant pesos as of December 31, 2006.

(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 2004, 2005 and 2006 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,		
	2004	2005	2006
(in millions of constant Ch\$ as of December 31, 2006)			
Commercial:			
Agriculture	Ch\$ 3,022	Ch\$ 4,758	Ch\$ 1,059
Mining	790	2,489	48
Manufacturing	5,546	1,707	1,913
Construction	7,150	1,327	5,690
Commerce	13,256	10,883	2,724
Transport	3,139	395	485
Financial services	8,188	2,705	11,231
Community	30,600	10,355	3,706
Subtotal:	Ch\$ 71,691	Ch\$ 34,619	Ch\$ 26,856
Consumer loans	17,854	19,860	23,127
Residential mortgage loans	12,624	13,551	9,786
Leasing contracts	2,612	712	882
Foreign loans		15	20
Total	Ch\$ 104,781	Ch\$ 68,757	Ch\$ 60,671



**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, 2004, 2005 and 2006. 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,		
	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)		
Current accounts	Ch\$ 1,506,846	Ch\$ 1,548,060	Ch\$ 1,738,972
Other demand liabilities	531,005	331,347	353,939
Savings accounts	150,555	141,231	137,405
Time deposits	3,724,727	4,568,900	5,651,411
Other commitments <sup>(1)</sup>	207,157	163,344	149,300
Total	Ch\$ 6,120,290	Ch\$ 6,752,882	Ch\$ 8,031,027

(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, 2006, 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 Currency	Total
Demand deposits	37.56%	0.47%	27.85%	27.92%
Savings accounts		7.71		1.71
Time deposits:				
Maturing within three months	46.37	28.88	69.51	45.86
Maturing after three but within six months	7.57	35.92	2.21	13.08
Maturing after six but within 12 months	6.40	23.22	0.41	9.26
Maturing after 12 months	2.10	3.80	0.02	2.17
Total time deposits	62.44	91.82	72.15	70.37
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, 2006:

	Ch\$	UF	Foreign Currency	Total
	(in millions of constant Ch\$ as of December 31, 2006)			
Time deposits:				
Maturing within three months	Ch\$ 1,723,840	Ch\$ 450,294	Ch\$ 611,226	Ch\$ 2,785,360
Maturing after three but within six months	381,266	624,059	22,657	1,027,982
Maturing after six but within 12 months	319,098	388,755	3,683	711,536
Maturing after 12 months	102,653	67,300	108	170,061

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Total time deposits	Ch\$ 2,526,857	Ch\$ 1,530,408	Ch\$ 637,674	Ch\$ 4,694,939
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**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:

	2004	As of December 31,	
	(in millions of constant Ch\$ as of December 31, 2006)		
	2004	2005	2006
Banco de Chile's regulatory capital	Ch\$ 552,048	Ch\$ 606,865	Ch\$ 639,383
Minimum regulatory capital required	(308,181)	(329,709)	(385,856)
Excess over minimum regulatory capital required	Ch\$ 243,867	Ch\$ 277,156	Ch\$ 253,527

**Short-term Borrowings**

Our short-term borrowings (other than deposits) totaled Ch\$907,153 million as of December 31, 2004, Ch\$415,852 million as of December 31, 2005 and Ch\$691,100 million as of December 31, 2006.

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

	For the year ended December 31,					
	2004	2005		2006		
	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate
	(in millions of constant Ch\$ as of December 31, 2006, except for rate data)					
Investments sold under agreements to repurchase	Ch\$ 369,248	2.15%	Ch\$ 276,435	4.36%	Ch\$ 306,855	4.85%
Central Bank borrowings	113,860	0.19				
Borrowings from domestic financial institutions	27,923	0.93	92,054	4.75	88,261	4.96
Foreign borrowings	360,415	1.93	14,277	0.02	272,400	4.86
Other obligations	35,707		33,086		23,584	
Total short-term borrowings	Ch\$ 907,153	1.69%	Ch\$ 415,852	3.95%	Ch\$ 691,100	4.70%

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

	For the year ended December 31,					
	2004	2005		2006		
	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate
	(in millions of constant Ch\$ as of December 31, 2006, except for rate data)					
	Ch\$ 449,369	1.87%	Ch\$ 304,814	3.56%	Ch\$ 271,948	4.95%



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Investments sold under agreements to repurchase						
Central Bank borrowings	10,646	2.06	30,866	3.15	11,808	5.26
Borrowings from domestic financial institutions	111,639	2.48	215,894	3.84	222,751	2.10
Sub-total	Ch\$ 571,654	1.99%	Ch\$ 551,574	3.65%	Ch\$ 506,507	3.70%
Foreign borrowings	313,836	1.34	167,724	1.73	83,576	8.22
Total short-term borrowings	Ch\$ 885,490	1.76%	Ch\$ 719,298	3.20%	Ch\$ 590,083	4.34%

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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:

	<b>Maximum 2004 month-end balance (in millions of constant Ch\$ as of December 31, 2006)</b>	<b>Maximum 2005 month-end balance</b>	<b>Maximum 2006 month-end balance</b>
Investments sold under agreements to repurchase	Ch\$ 530,818	Ch\$ 341,815	Ch\$ 312,473
Central Bank borrowings	113,860	121,944	73,072
Borrowings from domestic financial institutions	140,780	365,999	350,611
Foreign borrowings	Ch\$ 443,140	Ch\$ 318,728	Ch\$ 308,689

**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 28 to our audited consolidated financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP as they relate to us. It also includes a reconciliation to U.S. GAAP of net income for the years ended December 31, 2004, 2005 and 2006 and shareholders' equity at December 31, 2005 and 2006.

Pursuant to Chilean GAAP, the financial data presented in this section for all full-year periods are restated in constant pesos of December 31, 2006. See "Presentation of Financial Information" and Note 1 to our audited consolidated financial statements.

**Overview**

We believe 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. Although Chile's economy has continued to grow in recent years, the Chilean economy's growth slowed in each of the years between 2000 and 2003. Since 2003, Chile's gross domestic product, or GDP, began to recover, showing growth rates of 5.7% and 4.0% for 2005 and 2006, respectively. Unemployment has remained relatively high, decreasing from an average of 10.0% in 2004, to 9.3% in 2005, and 8.0% in 2006.

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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; the inflation rate was 2.6% in 2006, 3.7% in 2005 and 2.4% in 2004. However, a larger 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 rates of interest 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\$17,317.05 at December 31, 2004, Ch\$17,974.81 at December 31, 2005 and Ch\$18,336.38 (U.S.\$34.31) at December 31, 2006. 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\$1,366,114 million during the year ended December 31, 2004, Ch\$1,447,087 million during the year ended December 31, 2005 and Ch\$1,547,889 million (U.S.\$ 2,896 million) during the year ended December 31, 2006. See Item 4. Information on the Company Selected Statistical Information.

*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 64% during 2004, 65% during 2005 and

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53% during 2006. 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. 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 1.07% in 2004, 1.89% in 2005 and 2.83% in 2006. The average annual real long-term interest rate based on the Central Bank's eight-year duration Chilean peso-denominated bonds was 3.51% in 2004, 2.55% in 2005 and 2.98% in 2006.

### ***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\$38,652 million at December 31, 2004, Ch\$27,006 at December 31, 2005 and Ch\$16,925 million at December 31, 2006. 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.

### ***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

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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 28 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.

### ***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

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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 asset position (nonmonetary assets less nonmonetary liabilities) from shareholders' equity. As such, under Chilean GAAP, the gain (or loss) from price-level restatement in results of operations is determined by subtracting the price-level restatement adjustment of net nonmonetary assets from the price-level restatement adjustment of shareholders' equity. The inflation rate used for purposes of such adjustments is the change in the Consumer Price Index during the 12 months ended November 30 of the reported year. The change in the Consumer Price Index used for price-level restatement purposes was 2.5% in 2004, 3.6% in 2005 and 2.1% in 2006. See Note 1(b) to our audited consolidated financial statements. The actual change in the Consumer Price Index was 2.4% in the year ended December 31, 2004, 3.7% in the year ended December 31, 2005 and 2.6% in the year ended December 31, 2006.

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, 2005 and 2006 audited consolidated financial statements and their accompanying notes have been presented in constant Chilean pesos as of December 31, 2006. As described in Note 1(s) 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, 2005, goodwill has been allocated according to the structure of our business segments in 2005.

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.

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

Goodwill was not impaired as of December 31, 2006, nor was any goodwill written off during the years ended December 31, 2005 and 2006.

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 28 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. 3,196, issued by the Chilean Superintendency of Banks, effective October 31, 2002, we modified our accounting treatment of financial investments in mortgage finance bonds issued by us. This change consisted of subtracting the amount recorded for mortgage finance bonds issued by us from assets, and subtracting the respective mortgage finance bonds obligation from liabilities. Similarly, the difference between the amount deducted from related assets and liabilities was recognized under other assets and is amortized using the straight-line method based on the maturity of the obligation. As of December 31, 2005 and 2006, we recorded a net amount of Ch\$1,799 million and Ch\$1,150 million, respectively, under Other assets.

In accordance with Circular No. 3,345 issued by the Chilean Superintendency of Banks and Financial Institutions, 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 beginning on June 30, 2006.

The above mentioned Circular required retrospective application as of December 31, 2005, recognizing the cumulative effect in equity during fiscal year 2006. This resulted in a credit of Ch\$960 million (in historical pesos) to a Reserves account within equity in fiscal year 2006. On other hand, for the investment securities and derivatives portfolio held during 2006, the application of this new standard generated a higher income of Ch\$778 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. Those differences, as well as other significant differences between Chilean GAAP and U.S. GAAP, are described in greater detail in Note 28 to our audited consolidated financial statements.

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### **Results of Operations for the Years Ended December 31, 2004, 2005 and 2006**

The following section discusses the results of operations for the years ended December 31, 2004, 2005 and 2006. 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 2006 have been restated according to the current manner in which we measure our business segments during 2006.

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 management reports. 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 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, 2004, 2005 and 2006. 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)	
	2004	2005	2006	2004/2005	2005/2006
	(in millions of constant Ch\$ as of December 31, 2006, except for percentages)				
Retail banking	Ch\$ 101,663	Ch\$ 116,962	Ch\$ 130,740	15.0%	11.8%
Wholesale banking	35,791	66,359	82,653	85.4	24.6
International banking	3,794	(6,229)	(6,603)		6.0
Treasury and money market operations	26,109	16,081	19,109	(38.4)	18.8
Subsidiaries	29,808	27,079	27,848	(9.2)	2.8
Other	(16,308)	(13,893)	(34,403)	(14.8)	147.6
<b>Pre-tax income</b>	<b>Ch\$ 180,857</b>	<b>Ch\$ 206,359</b>	<b>Ch\$ 219,344</b>	<b>14.1%</b>	<b>6.3%</b>

*Consolidated. 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 15.7% 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.

*2004 and 2005.* The 14.1% increase in pre-tax income in 2005 as compared to 2004 was primarily attributable to a 46.5% decrease in provisions for loan losses, a 3.0% increase in net interest revenue, and an increase in other operating income, which was partially offset by a 10.8% increase in operating expenses. These positive results mainly reflected: (i) our various initiatives to expand our customer base, which generated higher operating revenues principally in retail banking, (ii) the improved economic environment in Chile, which positively impacted the credit quality of corporate portfolios and (iii) higher earnings from assets funded by demand deposits as a consequence of higher nominal interest rates.

*Retail Banking. 2005 and 2006.* The 11.8% increase in the retail banking business segment's pre-tax income in 2006 was primarily attributable to a 10.6% increase in operating revenues from Ch\$291,006 million in 2005 to Ch\$321,937 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.

*2004 and 2005.* The 15.0% increase in the retail banking business segment's pre-tax income in 2005 was primarily attributable to a 10.0% increase in operating revenues from Ch\$264,568 million in 2004 to Ch\$291,006 million in 2005 fueled by a 12.6% expansion in the loan portfolio, higher earnings from demand deposits and, to a lesser extent, higher fee income.

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*Wholesale Banking. 2005 and 2006.* The 24.6% increase in the wholesale business segment's pre-tax income in 2006 was primarily attributable to (i) a 7.7% 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.

*2004 and 2005.* The 85.4% increase in the wholesale business segment's pre-tax income in 2005 was primarily attributable to a significant improvement in loan portfolio credit quality (in particular, that part of the portfolio related to the construction and commerce sectors) and to a 10.8% increase in operating revenues from Ch\$109,178 million in 2004 to Ch\$120,975 million in 2005, a consequence of the 21.1% expansion in loans, higher fee income (mainly from commercial loans, collection and payment services) and higher income from demand deposits.

*International Banking. 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.

*2004 and 2005.* Extraordinary expenses, mainly for legal counsel and other consultation for operational review and process design incurred in 2005 by the U.S. branches as a result of examination by U.S. regulators and of the improvement in internal controls made to comply with orders agreed to with the OCC and the Federal Reserve, accounted for the negative pre-tax income recorded by the international banking business segment in 2005 as compared to the positive figure of 2004. In addition, in October, 2005 we entered into agreements with the OCC and separately with FinCEN requiring our U.S. branches to make a U.S.\$3 million civil penalty payment to resolve allegations related to the Bank Secrecy Act, anti-money laundering compliance and related matters.

*Treasury and Money Market Operations. 2005 and 2006.* The treasury and money market operations business segment's pre-tax income increased to Ch\$19,109 million in 2006 from Ch\$16,081 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.

*2004 and 2005.* The treasury and money market operations business segment's pre-tax income decreased to Ch\$16,081 million in 2005 from Ch\$26,109 million in 2004 primarily as a consequence of lower sales and mark to market securities results, as a result of the increase in long-term interest rates during the last quarter of 2005, and due to the lower balance maintained in financial instruments by us during 2005.

*Operations through Subsidiaries. 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.

*2004 and 2005.* The 9.2% decrease in pre-tax income from our subsidiaries in 2005 compared to 2004 was primarily attributable to higher operating expenses recorded by our securities brokerage subsidiary mainly related to: (i) higher consulting and software expenses from a new operational platform, which seeks to improve control systems and efficiency and (ii) higher personnel costs principally attributable to higher variable compensations and indemnities. In addition, the decrease in pre-tax income during 2005 was also explained by a decrease in fee income from the financial advisory subsidiary, as it generated only a small number of transactions.

**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, 2004, 2005 and 2006:

	Year Ended December 31,			% Increase (Decrease)	
	2004	2005	2006	2004/2005	2005/2006
	(in millions of constant Ch\$ as of December 31, 2006, except for percentages)				
Net interest revenue	Ch\$ 370,088	Ch\$ 381,107	Ch\$ 405,410	3.0%	6.4%
Provisions for loan losses	(42,073)	(22,491)	(36,228)	(46.5)	61.1
Fees and income from services, net	133,248	140,177	133,541	5.2	(4.7)
Other operating income (loss), net	(6,411)	7,935	21,779		174.5
Other income and expenses, net:					
Other income and expenses, net	(11,232)	(6,361)	3,906	(43.4)	
Minority interest	(1)		(1)	(100.0)	
Operating expenses	(254,865)	(282,318)	(300,537)	10.8	6.5
Net loss from price-level restatement	(7,897)	(11,690)	(8,526)	48.0	(27.1)
Net income before income taxes	180,857	206,359	219,344	14.1	6.3
Income taxes	(19,414)	(21,840)	(24,096)	12.5	10.3
Net income	Ch\$ 161,443	Ch\$ 184,519	Ch\$ 195,248	14.3%	5.8%

2005 and 2006. Our net income for 2006 was Ch\$195,248 million, an increase of 5.8% from Ch\$184,519 million in 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.

2004 and 2005. Our net income for 2005 was Ch\$184,519 million, an increase of 14.3% from Ch\$161,443 million in 2004, primarily reflecting a 46.5% decrease in provisions for loan losses, a 3.0% increase in net interest revenue and an increase in other operating income. These factors more than offset a 10.8% increase in our 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, 2004, 2005 and 2006. 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)	
	2004	2005	2006	2004/2005	2005/2006
	(in millions of constant Ch\$ as of December 31, 2006, except for percentages)				
Interest revenue	Ch\$ 597,371	Ch\$ 697,784	Ch\$ 777,654	16.8%	11.4%
Interest expense	(227,283)	(316,677)	(372,244)	39.3	17.5
Net interest revenue	Ch\$ 370,088	Ch\$ 381,107	Ch\$ 405,410	3.0%	6.4%
Net interest margin <sup>(1)</sup>	4.09%	4.10%	3.95%		

(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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2005 and 2006. Net interest revenue increased by 6.4%, from Ch\$381,107 million in 2005 to Ch\$405,410 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 5.04% 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.

2004 and 2005. Net interest revenue increased by 3.0%, from Ch\$370,088 million in 2004 to Ch\$381,107 million in 2005, primarily as a result of 2.8% growth in average interest earning assets, as the net interest margin registered a slight increase from 4.09% in 2004 to 4.10% in 2005. This slight increase in net interest margin was largely as a result of the following:

an increase in nominal interest rates (as a result of the higher inflation rate, measured by the variation of the UF which was 3.80% in 2005 as compared to 2.35% in 2004), which implied that during 2005 we earned higher interest income on the portion of interest earning assets financed by non-interest bearing liabilities;

a favorable change in the asset mix realized by increasing the relative weight of loans to total assets from 71.4% in 2004 to 76.7% in 2005, against investment portfolio expansion. Within the loan portfolio, we emphasized growth in higher yielding loans such as consumer loans and factoring and lease contracts (which were primarily made to customers in the retail and wholesale banking business segments); and

However, these favorable effects were offset in part by:

a negative repricing effect during 2005 (since liabilities reprice faster than interest earning assets) as the Central Bank raised its monetary policy interest rate by 225 basis points during the year, reaching 4.5% in December 2005. During 2004, the Central Bank only increased the monetary policy rate by 50 basis points; and

a lower lending spread attained during 2005 compared to the previous year as a consequence of increased competition.

**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, 2004, 2005 and 2006:

	Year Ended December 31,			% Increase (Decrease)	
	2004	2005	2006	2004/2005	2005/2006
	(in millions of constant Ch\$ as of December 31, 2006, except for percentages)				
Interest revenue <sup>(1)</sup>	Ch\$ 597,371	Ch\$ 697,784	Ch\$ 777,654	16.8%	11.4%
Average interest earning assets:					
Commercial loans <sup>(2)</sup>	Ch\$ 3,581,883	Ch\$ 4,357,167	Ch\$ 5,225,446	21.6	19.9
Consumer loans	671,376	786,059	969,536	17.1	23.3
Mortgage loans <sup>(3)</sup>	1,058,769	737,123	623,355	(30.4)	(15.4)
Foreign trade loans	722,355	646,906	666,764	(10.4)	3.1
Interbank loans	47,783	40,622	17,825	(15.0)	(56.1)
Past due loans <sup>(4)</sup>	104,678	83,474	68,325	(20.3)	(18.1)
Contingent loans <sup>(5)</sup>	504,217	627,634	828,568	24.5	32.0
Leasing contracts	321,656	399,436	484,158	24.2	21.2
Total loans	Ch\$ 7,012,717	Ch\$ 7,678,421	Ch\$ 8,883,977	9.5%	15.7%
Financial investments <sup>(6)</sup>	1,940,149	1,465,582	1,274,630	(24.5)	(13.0)
Interbank deposits	102,306	160,792	109,690	57.2	(31.8)
Total	Ch\$ 9,055,172	Ch\$ 9,304,795	Ch\$ 10,268,297	2.8%	10.4%
Average rates earned on total interest earning assets <sup>(7)</sup> :					
Average nominal rates	6.60%	7.50%	7.57%		
Average real rates	2.54%	1.97%	5.61%		

(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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*2005 and 2006.* Interest revenue increased by 11.4%, from Ch\$697,784 million in 2005 to Ch\$777,654 million in 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.

*2004 and 2005.* Interest revenue increased by 16.8%, from Ch\$597,371 million in 2004 to Ch\$697,784 million in 2005, primarily as a result of an increase in the average nominal interest rates earned from 6.60% in 2004 to 7.50% in 2005 and, to a lesser extent, a 2.8% growth in average interest earning assets driven by a 9.5% increase in average loans, which offset the 24.5% decrease in average investments. The increase in average nominal interest rates was mainly the result of an increase in the inflation rate (from 2.4% in 2004 to 3.7% in 2005) and successive increases of the Central Bank's nominal reference rates (from 2.25% as of December 2004 to 4.50% at the end of 2005).



**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, 2004, 2005 and 2006:

	Year ended December 31,			% Increase (Decrease)	
	2004	2005	2006	2004/2005	2005/2006
	(in millions of constant Ch\$ as of December 31, 2006, except for percentages)				
Interest expense	Ch\$ 227,283	Ch\$ 316,677	Ch\$ 372,244	39.3%	17.5%
Average interest-bearing liabilities:					
Time deposits <sup>(1)</sup>	Ch\$ 3,666,220	Ch\$ 4,016,738	Ch\$ 5,101,532	9.6	27.0
Savings accounts	155,255	142,192	138,928	(8.4)	(2.3)
Total Central Bank borrowings	13,101	32,491	12,935	148.0	(60.2)
Investments sold under agreements to repurchase	449,369	304,814	271,948	(32.2)	(10.8)
Mortgage finance bonds	966,858	629,747	496,053	(34.9)	(21.2)
Other interest-bearing liabilities <sup>(2)</sup>	1,188,738	1,492,015	1,532,615	25.5	2.7
<b>Total</b>	<b>Ch\$ 6,439,541</b>	<b>Ch\$ 6,617,997</b>	<b>Ch\$ 7,554,011</b>	<b>2.8%</b>	<b>14.1%</b>
Average rates paid on total interest bearing liabilities <sup>(3)</sup> :					
Average nominal rates	3.53%	4.79%	4.93%		
Average real rates	(0.67)%	(0.86)%	3.11%		
Average (Chilean peso-denominated) non-interest bearing demand deposits	Ch\$ 2,209,133	Ch\$ 2,231,730	Ch\$ 2,048,877	1.0%	(8.2)%

(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.

*2005 and 2006.* Interest expense increased by 17.5%, from Ch\$316,677 million in 2005 to Ch\$372,244 million in 2006, primarily as a result of a 14.1% increase in average interest-bearing liabilities (from Ch\$6,617,997 million in 2005 to Ch\$7,554,011 million in 2006) 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.

*2004 and 2005.* Interest expense increased by 39.3%, from Ch\$227,283 million in 2004 to Ch\$316,677 million in 2005, primarily as a result of an increase in average nominal interest rates paid, from 3.53% in 2004 to 4.79% in 2005 and, to a lesser extent, the 2.8% increase in average interest-bearing liabilities from Ch\$6,439,541 million in 2004 to Ch\$6,617,997 million in 2005. The increase in average interest bearing liabilities was primarily a result of a 9.6% increase in time deposits and a 25.5% increase in other interest-bearing liabilities mainly related to bonds and subordinated bonds. The increase in average nominal interest rate paid was primarily attributable to the higher inflation rate and successive increases in the Central Bank's monetary policy rates.

**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.

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Information on the Company Selected Statistical Information and Note 7 to our audited consolidated financial information. According to 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, 2004, 2005 and 2006:

	Year Ended December 31,			% Increase (Decrease)	
	2004	2005	2006	2004/2005	2005/2006
(in millions of constant Ch\$ as of December 31, 2006, except for percentages)					
<b>Provisions:</b>					
Total provisions for loan losses	Ch\$ 42,073	Ch\$ 22,491	Ch\$ 36,228	(46.5)%	61.1%
Gross provisions for loan losses	77,757	56,170	64,328	(27.8)	14.5
Total loan loss recoveries	35,684	33,679	28,100	(5.6)	(16.6)
<b>Charge-offs:</b>					
Total charge-offs	104,781	68,757	60,671	(34.4)	(11.8)
Net charge-offs	69,097	35,078	32,571	(49.2)	(7.1)
<b>Other asset quality data:</b>					
Total loans	Ch\$ 7,286,831	Ch\$ 8,378,248	Ch\$ 9,695,166	15.0	15.7
Consolidated risk index	2.23%	1.72%	1.50%		
Unconsolidated risk index	2.23%	1.70%	1.48%		
Allowances for loan losses <sup>(1)</sup>	Ch\$ 162,664	Ch\$ 144,272	Ch\$ 144,979	(11.3)%	0.5%
Allowances for loan losses as a percentage of total loans	2.23%	1.72%	1.50%		

(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.

*2005 and 2006.* Our overall provisions for loan losses increased from Ch\$22,491 million in 2005 to Ch\$36,228 million in 2006, primarily as a result of higher consumer portfolio growth in the individual segment coupled with a moderate increase in its associated risk index (measured as provisions 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 1.50% in 2006.

*2004 and 2005.* Despite the 15.0% increase in total loans in 2005, our overall provisions for loan losses decreased by 46.5%, from Ch\$42,073 million in 2004 to Ch\$22,491 million in 2005, primarily as a result of an improvement in the financial condition of our corporate clients and the economic environment. These factors positively impacted our corporate portfolios, in particular those related to the construction and commerce sectors. Provisions related to individuals also improved, registering a modest increase despite an approximately 13.0% increase in the size of the retail market loan portfolio. As a consequence, the ratio of provisions for loan losses to average loans fell to 0.29% in 2005 from 0.60% in 2004. On a consolidated basis, our risk index decreased from 2.23% in 2004 to 1.72% in 2005.

**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, 2004, 2005 and 2006:

	Year Ended December 31,			% Increase (Decrease)	
	2004	2005	2006	2004/2005	2005/2006
	(in millions of constant Ch\$ as of December 31, 2006, except for percentages)				
Mutual funds	Ch\$ 19,691	Ch\$ 23,673	Ch\$ 24,966	20.2%	5.5%
Checking accounts and overdrafts	25,787	24,212	24,072	(6.1)	(0.6)
Insurance	15,111	20,419	24,228	35.1	18.7
Stock brokerage	12,781	15,416	10,501	20.6	(31.9)
Credit cards	11,795	11,642	13,563	(1.3)	16.5
Sight accounts and ATMs	11,141	13,380	14,484	20.1	8.3
Cash management services	8,549	9,560	10,771	11.8	12.7
Collection of over-due loans	9,064	8,838	9,883	(2.5)	11.8
Credits	5,730	9,764	4,567	70.4	(53.2)
Financial advisory services	2,678	942	2,844	(64.8)	201.9
Credit lines	7,137	7,425	8,078	4.0	8.8
Letters of credit, guarantees, collaterals and other contingent loans	5,445	4,848	3,839	(11.0)	(20.8)
Income and revenue from assets received in lieu of payment	4,098	3,592	2,332	(12.3)	(35.1)
Foreign trade and currency exchange	3,606	3,407	3,863	(5.5)	13.4
Collection services	3,767	2,580	1,944	(31.5)	(24.7)
Custody and trust services	1,480	1,799	2,076	21.6	15.4
Leasing	1,628	1,310	1,268	(19.5)	(3.2)
Factoring	617	623	862	1.0	38.4
Fees from sales force	(11,840)	(15,331)	(22,253)	29.5	45.2
Cobranding	(3,843)	(5,939)	(6,977)	54.5	17.5
Teller services expenses	(3,584)	(4,043)	(4,606)	12.8	13.9
Other	2,410	2,060	3,236	(14.5)	57.1
<b>Total</b>	<b>Ch\$ 133,248</b>	<b>Ch\$ 140,177</b>	<b>Ch\$ 133,541</b>	<b>5.2%</b>	<b>(4.7)%</b>

*2005 and 2006.* Fees and income from services, net decreased by 4.7%, from Ch\$140,177 million in 2005 to Ch\$133,541 million in 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 (i) higher fee-based income, mainly related to the Bank's core products such as credit cards, debit accounts, ATMs and cash management services, (ii) an important network expansion and (iii) 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.

*2004 and 2005.* Fees and income from services, net increased by 5.2%, from Ch\$133,248 million in 2004 to Ch\$140,177 million in 2005, primarily as a result of an increase in fees generated by insurance, mutual funds, credits (principally associated to corporate loan restructurings) and stock brokerage businesses, and to a lesser extent, to an increase in fees related to debit accounts and ATMs (primarily due to an increase in the client base with new checking accounts, coupled with the expansion of 257 new ATMs), receipts and payment of services and credit cards. The increase in fees was partially offset by higher sales force and cobranding expenses incurred in 2005, reflecting our aggressive efforts to expand our retail market business segment.

***Other Operating Income (Loss), Net***

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



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end, as well as gains and losses coming from interest rate and currency derivatives. 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, 2004, 2005 and 2006:

	Year Ended December 31,			% Increase (Decrease)	
	2004	2005	2006	2004/2005	2005/2006
	(in millions of constant Ch\$ as of December 31, 2006, except for percentages)				
Gains (losses) on sales of financial instrument and non-forward derivatives, net	Ch\$ (4,277)	Ch\$ 3,273	Ch\$ 7,379		125.5%
Foreign exchange transactions, and forward derivatives, net	(2,134)	4,662	14,400		208.9
Net other operating income	Ch\$ (6,411)	Ch\$ 7,935	Ch\$ 21,779		174.5%

*2005 and 2006.* In 2006, other operating income, net nearly tripled, from Ch\$7,935 million in 2005 to Ch\$21,779 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.

*2004 and 2005.* In 2005, other operating income, increased from a loss of Ch\$6,411 million in 2004 to an income of Ch\$7,935 million in 2005, primarily as a result of higher earnings obtained from Central Bank securities maintained by our brokerage subsidiary and also due to better results obtained from foreign exchange transactions, net and forward derivatives instruments during 2005. Losses during 2004 were mainly related to decreases in the fair value of cross-currency swap transactions and to the sale of two loans in the manufacturing and retail sectors.

**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, 2004, 2005 and 2006:

	2004	Year Ended December 31,		% Increase (Decrease)	
		2005	2006	2004/2005	2005/2006
(in millions of constant Ch\$ as of December 31, 2006, except for percentages)					
Non-operating income	Ch\$ 5,104	Ch\$ 8,024	Ch\$ 16,717	57.2%	108.3%
Non-operating expenses	(16,797)	(15,081)	(13,842)	(10.2)	(8.2)
Subtotal	(11,693)	(7,057)	2,875	(39.6)	
Income from investments in other companies	461	696	1,031	51.0	48.1%
Minority interest	(1)		(1)	(100.0)	
Total	Ch\$ (11,233)	Ch\$ (6,361)	Ch\$ 3,905	(43.4)%	

2005 and 2006. Other income and expenses, net increased from an expense of Ch\$6,361 million in 2005 to income of Ch\$3,905 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\$3,350 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.

2004 and 2005. Other income and expenses, net decreased by 43.4% from an expense of Ch\$11,233 million in 2004 to an expense of Ch\$6,361 million in 2005. The decrease was primarily a result of lower non-operating expenses, net recorded in 2005, which was primarily a result of higher gains on assets received in lieu of payment in 2005 and due to tax expenses from previous years related to credit cards recorded in 2004.

***Operating Expenses***

The following table sets forth information regarding our operating expenses for the years ended December 31, 2004, 2005 and 2006:

	2004	Year Ended December 31,		% Increase (Decrease)	
		2005	2006	2004/2005	2005/2006
(in millions of constant Ch\$ as of December 31, 2006, except for percentages)					
Personnel salaries and expenses	Ch\$ 143,877	Ch\$ 153,779	Ch\$ 157,958	6.9%	2.7%
Administrative and other expenses:					
Advertising	11,484	12,226	16,354	6.5	33.8
Building maintenance	7,110	5,908	6,663	(16.9)	12.8
Rentals and insurance	9,735	10,784	12,477	10.8	15.7
Office supplies	4,817	4,938	5,183	2.5	5.0
Other expenses	60,942	77,406	82,135	27.0	6.1
Total administrative and other expenses	Ch\$ 94,088	Ch\$ 111,262	Ch\$ 122,812	18.3%	10.4%
Depreciation and amortization	16,900	17,277	19,767	2.2	14.4
Total	Ch\$ 254,865	Ch\$ 282,318	Ch\$ 300,537	10.8%	6.5%





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*2005 and 2006.* Our operating expenses increased by 6.5%, from Ch\$282,318 million in 2005 to Ch\$300,537 million in 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 2.7% 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.

*2004 and 2005.* Our operating expenses increased by 10.8%, from Ch\$254,865 million in 2004 to Ch\$282,318 million in 2005, principally reflecting the impact of higher administrative expenses and, to a lesser extent, the growth in personnel costs.

Higher administrative expenses were primarily the result of expenses incurred by our U.S. branches during 2005 in connection with our efforts to comply with orders entered into with the OCC and the Federal Reserve. These expenses, which mainly included legal counsel and consulting expenses, amounted to approximately Ch\$13,000 million in 2005, compared to Ch\$1,500 million in late 2004. For a description of the orders, see [Item 8. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings](#). To a lesser extent, administrative expenses during 2005 were impacted by higher advertising costs in order to support commercial activities, increased rental expenses (principally associated with the expansion of our distribution network) and higher consulting and technology expenses incurred by our subsidiaries.

Personnel costs and expenses increased by 6.9% during year 2005, mostly driven by higher indemnities principally related to expenses derived from the commercial reorganization we undertook in the second half of 2005 as part of our decision to adjust our client segmentation. To a lesser extent, salary increases and the incorporation of new employees during the year contributed to the increase in this item.

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

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

*2005 and 2006.* The loss from price-level restatement decreased from Ch\$11,690 million in 2005 to Ch\$8,526 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.

*2004 and 2005.* The loss from price-level restatement increased from Ch\$7,897 million in 2004 to Ch\$11,690 million in 2005, primarily as a result of the increase in the inflation rate used for adjustment purposes from 2.5% in 2004 to 3.6% in 2005.

***Income Tax***

The statutory corporate income tax rate in Chile was 17% in 2006, 2005 and 2004. We are also permitted under Law No. 19,396 to deduct dividend payments made to SAOS. In addition, any other payments made by SAOS or its shareholders to the Central Bank in connection with the Central Bank

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indebtedness are tax deductible. 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.

*2005 and 2006.* In 2006, we recorded a tax expense of Ch\$24,096 million as compared to a tax expense of Ch\$21,840 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.

*2004 and 2005.* In 2005, we recorded a tax expense of Ch\$21,840 million as compared to a tax expense of Ch\$19,414 million in 2004. This increase was primarily attributable to the higher income tax base in 2005 as a result of a 14.1% 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 28 to our audited consolidated financial statements for a description of the material differences between Chilean GAAP and U.S. GAAP, as they relate to us and our consolidated subsidiaries, reconciliation to U.S. GAAP of net income and shareholders' equity and a discussion of new accounting rules under U.S. GAAP. The following table sets forth net income and shareholders' equity for the years ended December 31, 2004, 2005 and 2006 under Chilean GAAP and U.S. GAAP:

	Year Ended December 31,		
	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)		
Net income (Chilean GAAP)	Ch\$ 161,443	Ch\$ 184,519	Ch\$ 195,248
Net income (U.S. GAAP)	155,397	172,375	172,836
Shareholders' equity (Chilean GAAP)	713,491	791,384	834,631
Shareholders' equity (U.S. GAAP)	Ch\$ 1,400,758	Ch\$ 1,459,771	Ch\$ 1,476,418

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

Under Chilean GAAP, the merger 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

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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.

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\$1,006 million and Ch\$15,704 million in 2005 and 2006, respectively, and shareholders' equity would have increased by Ch\$39,139 million and Ch\$23,435 million in 2005 and 2006, respectively.

The Chilean Superintendency of Banks' guidelines require that we account for forward contracts between foreign currencies and the U.S. dollar, or between the U.S. dollar and the Chilean peso, or the UF, at the closing spot exchange rate. Any initial discount or premium is amortized over the life of the contract. Interest rate swap agreements are treated as off-balance-sheet financial instruments. The net interest effect, which corresponds to the difference between interest income and interest expense arising from such agreements, is recorded in net income in the period that such differences originate. Additionally, we and our subsidiaries record, in the line item "Gains on loss from trading activities," the adjustment to market value of the swap contract portfolio that is used to hedge interest rate and foreign currency risk. Under U.S. GAAP, our portfolio of swap agreements are recorded at their estimated fair value and forward contracts between the U.S. dollar and the Chilean peso, or the UF, at the fair value based on the forward exchange rate. Additionally, 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 28 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. 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 is equal to the amount by which the daily balance of:

deposits in checking accounts;

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

other deposits unconditionally payable immediately or within a term of less than 30 days; and

time deposits payable within ten days  
in the aggregate exceeds 2.5 times the amount of our capital and reserves.

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

The senior members of our 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,		
	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)		
Net cash provided by operating activities	Ch\$ 608,000	Ch\$ 440,070	Ch\$ 457,664

*2005 and 2006.* Cash provided by operating activities increased to Ch\$457,664 million in 2006 from Ch\$440,070 million in 2005, primarily as a result of a positive net change in interest accruals in 2006 as compared to 2005.

*2004 and 2005.* Cash provided by operating activities decreased to Ch\$440,070 million in 2005 from Ch\$608,000 million in 2004, primarily as a result of a lower decrease in our financial investments, mainly short-term Central Bank securities as we placed a new series of subordinated bonds and 5-year bonds on the local market during 2005, which improved our liquidity and allowed us to reduce our lower-yielding short-term assets.

	Year Ended December 31,		
	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)		
Net cash used in investing activities	Ch\$ (679,788)	Ch\$ (1,250,455)	Ch\$ (1,349,088)

*2005 and 2006.* Cash used in investing activities increased to Ch\$1,349,088 million in 2006 from Ch\$1,250,455 million in 2005, primarily as a result of a 15.7% increase in the volume of our loan portfolio.

*2004 and 2005.* Cash used in investing activities increased to Ch\$1,250,455 million in 2005 from Ch\$679,788 million in 2004 primarily as a result of a 15.0% increase in the volume of our loan portfolio.

	Year Ended December 31,		
	2004	2005	2006
	(in millions of constant Ch\$ as of December 31, 2006)		
Net cash provided by financing activities	Ch\$ 104,342	Ch\$ 580,384	Ch\$ 1,457,694

*2005 and 2006.* The increase in cash provided by financing activities from Ch\$ 580,384 million in 2005 to Ch\$1,457,694 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.

*2004 and 2005.* The increase in cash provided by financing activities from Ch\$104,342 million in 2004 to cash provided by financing activities of Ch\$580,384 million in 2005 was primarily attributable to an increase in time deposits and, to a lesser extent, related to an increase in long-term foreign borrowings and to the repurchase of 2.5% of our shares.

**Table of Contents****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. 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, 2005			Year Ended December 31, 2006		
	Long-term	Short-term	Total	Long-term	Short-term	Total
	(in millions of constant Ch\$ as of December 31, 2006)					
Central Bank Credit lines for renegotiation of loans	Ch\$ 1,436	Ch\$	Ch\$ 1,436	Ch\$ 824	Ch\$	Ch\$ 824
Other Central Bank Borrowings						
Mortgage finance bonds	568,191		568,191	477,637		477,637
Bonds	331,522		331,522	554,272		554,272
Subordinated bonds	311,696		311,696	405,942		405,942
Borrowings from domestic financial institutions		92,054	92,054		88,261	88,261
Foreign borrowings	661,107	14,277	675,384	319,173	272,400	591,573
Investments sold under agreements to repurchase		276,435	276,435		306,855	306,855
Other obligations	1,366	33,086	34,452	2,848	23,584	26,432
Total other interest bearing liabilities	Ch\$ 1,875,318	Ch\$ 415,852	Ch\$ 2,291,170	Ch\$ 1,760,696	Ch\$ 691,100	Ch\$ 2,451,796

**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 3.00% as of December 31, 2006. The maturities of the outstanding amounts are as follows:

	As of December 31, 2006 (in millions of constant Ch\$ as of December 31, 2006)	
Due within 1 year	Ch\$	824
Due after 1 year but within 2 years		
Due after 2 years but within 3 years		
Due after 3 years but within 4 years		
Due after 4 years but within 5 years		
Due after 5 years		
Total long-term (Credit lines for renegotiation of loans)		824
Total short-term (Other Central Bank borrowings)		
Total Central Bank borrowings	Ch\$	824

**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 4.56% as of December 31, 2006.

The maturities of outstanding mortgage finance bond amounts as of December 31, 2006 are as follows:

	<b>As of December 31, 2006</b> <b>(in millions of constant Ch\$ as of</b> <b>December 31, 2006)</b>	
Due within 1 year	Ch\$	66,944
Due after 1 year but within 2 years		49,487
Due after 2 years but within 3 years		48,606
Due after 3 years but within 4 years		47,341
Due after 4 years but within 5 years		44,838
Due after 5 years		220,421
<b>Total mortgage finance bonds</b>	<b>Ch\$</b>	<b>477,637</b>

***Bonds***

Our bonds are linked to the UF Index and carry an average real annual interest rate of 4.06% as of December 31, 2006, 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, 2006 are as follows:

	<b>As of December 31, 2006</b> <b>(in millions of constant Ch\$ as of</b> <b>December 31, 2006)</b>	
Due within 1 year	Ch\$	119,694
Due after 1 year but within 2 years		116,688
Due after 2 years but within 3 years		116,687
Due after 3 years but within 4 years		53,318
Due after 4 years but within 5 years		32,989
Due after 5 years		114,896
<b>Total bonds</b>	<b>Ch\$</b>	<b>554,272</b>

**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, 2006, the effective real interest rate was 6.77% 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, 2006 the outstanding maturities of the bonds, which are considered long-term, are as follows:

	<b>As of December 31, 2006</b> <b>(in millions of constant Ch\$ as of</b> <b>December 31, 2006)</b>	
Due within 1 year	Ch\$	32,404
Due after 1 year but within 2 years		25,723
Due after 2 years but within 3 years		25,723
Due after 3 years but within 4 years		25,723
Due after 4 years but within 5 years		25,723
Due after 5 years		270,646
<b>Total subordinated bonds</b>	<b>Ch\$</b>	<b>405,942</b>

On June 15, 2006, we issued U.S.\$200,000,000 of 6.25% subordinated notes due 2016. The notes pay interest semi-annually and were issued pursuant to an exemption from registration under Regulation S and Rule 144A of the Securities Act.

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 4.96% as of December 31, 2006 and have the following outstanding maturities as of December 31, 2006:

	<b>As of December 31, 2006</b> <b>(in millions of constant Ch\$ as of</b> <b>December 31, 2006)</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>88,261 <sup>(1)</sup></b>
<b>Total borrowings from domestic financial institutions</b>	<b>Ch\$</b>	<b>88,261</b>

(1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2006 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, 2006 are as follows:

	As of December 31, 2006 (in millions of constant Ch\$ as of December 31, 2006)	
Due within 1 year	Ch\$	306,746
Due after 1 year but within 2 years		5,393
Due after 2 years but within 3 years		7,034
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>319,173</b>
<b>Total short-term</b>		<b>272,400</b>
<b>Total foreign borrowings</b>	<b>Ch\$</b>	<b>591,573</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 5.85% as of December 31, 2006.

**Other obligations**

	As of December 31, 2005 <span style="margin-left: 200px;"></span> 2006 (in millions of constant Ch\$ as of December 31, 2006)			
<b>Other long-term obligations:</b>				
Obligations with Chilean government	Ch\$	1,366	Ch\$	2,848
<b>Total other long-term obligations</b>		<b>1,366</b>		<b>2,848</b>
Other short-term obligations		33,086		23,584
<b>Total other obligations</b>	<b>Ch\$</b>	<b>34,452</b>	<b>Ch\$</b>	<b>26,432</b>

As of December 31, 2006, other obligations had the following maturities:

	As of December 31, 2006 (in millions of constant Ch\$ as of December 31, 2006)	
Due within 1 year	Ch\$	184
Due after 1 year but within 2 years		376
Due after 2 years but within 3 years		531
Due after 3 years but within 4 years		546
Due after 4 years but within 5 years		379
Due after 5 years		832
<b>Total long-term</b>		<b>2,848<sup>(1)</sup></b>

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Total short-term		23,584 <sup>(1)</sup>
Total other obligations	Ch\$	26,432

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- (1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2006 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, 2004, 2005 and 2006, in each case together with the related average nominal interest rates paid thereon:

	Year Ended December 31,								
	Average Balance	2004 % of Total Liabilities	Average Nominal Rate	Average Balance	2005 % of Total Liabilities	Average Nominal Rate	Average Balance	2006 % of Total Liabilities	Average Nominal Rate
(in millions of constant Ch\$ as of December 31, 2006, except for percentages)									
Non-interest bearing demand deposits	Ch\$ 2,209,133	23.3%		Ch\$ 2,231,730	22.7%		Ch\$ 2,048,877	18.9%	
Time deposits	3,666,220	38.7	2.5%	4,016,738	40.8	4.3%	5,101,532	47.1	5.1%
Savings accounts	155,255	1.7	2.2	142,192	1.4	3.8	138,928	1.3	2.1
Mortgage finance bonds	966,858	10.2	8.3	629,747	6.4	8.8	496,053	4.6	7.4
Central Bank borrowings	13,101	0.1	2.9	32,491	0.3	3.3	12,935	0.1	5.4
Contingent liabilities	505,979	5.4		629,319	6.4		828,263	7.7	
Other non-interest bearing liabilities	315,754	3.3		371,299	3.8		395,280	3.7	
Other interest bearing liabilities	1,638,107	17.3	3.2%	1,796,829	18.2	4.6%	1,804,563	16.6	4.0%
<b>Total liabilities</b>	<b>Ch\$ 9,470,407</b>	<b>100.0%</b>		<b>Ch\$ 9,850,345</b>	<b>100.0%</b>		<b>Ch\$ 10,826,431</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 18.9% of our average total liabilities in 2006, and are our least expensive source of funding. Time deposits and mortgage finance bonds represented 51.7% of our average liabilities in 2006 and 47.2% of our average liabilities in 2005, 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.

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



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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\$1,258,375 million (U.S.\$2,355 million) and Ch\$1,733,916 million (U.S.\$3,244 million) as of December 31, 2005 and 2006, respectively. The amounts of subscribed leasing contracts were Ch\$62,726 million (U.S.\$117 million) and Ch\$95,655 million (U.S.\$179 million) as of December 31, 2005 and 2006, 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, 2006</b> <b>(in millions of constant Ch\$ as</b> <b>of December 31, 2006)</b>	
Performance bonds	Ch\$	681,427
Foreign office guarantees		39,067
Standby letters of credit		26,343
 Total	 Ch\$	 746,837

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 1 year	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years	Total
	(in millions of constant Ch\$ as of December 31, 2006)				
Performance bonds	Ch\$ 398,065	Ch\$ 239,332	Ch\$ 43,535	Ch\$ 495	Ch\$ 681,427
Foreign office guarantees	39,067				39,067
Standby letters of credit	5,259	19,827	1,257		26,343
Total	Ch\$ 442,391	Ch\$ 259,159	Ch\$ 44,792	Ch\$ 495	Ch\$ 746,837

**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, 2006, the scheduled maturities of our contractual obligations, including accrued interest, were as follows:

	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years	Total
	(in millions of constant Ch\$ as of December 31, 2006)				
<b>Contractual Obligations</b>					
Deposit and other term liabilities <sup>(1)</sup>	Ch\$ 5,782,020	Ch\$ 173,940	Ch\$	Ch\$	Ch\$ 5,955,960
Mortgage finance bonds	66,944	98,093	92,179	220,421	477,637
Bonds issued	152,098	284,821	137,753	385,542	960,214
Central Bank credit lines from renegotiations of loans	824				824
Borrowings from domestic financial institutions	88,261				88,261
Foreign borrowings	579,146	12,427			591,573
Other obligations	23,768	907	925	832	26,432
Lease contracts	7,964	11,470	6,333	5,278	31,045
Services contracts	78,120	110,380	85,200	1,631,157	1,904,857
Investments sold under agreements to repurchase	306,855				306,855
Total	Ch\$ 7,086,000	Ch\$ 692,038	Ch\$ 322,390	Ch\$ 2,243,230	Ch\$ 10,343,658

(1) Excludes demand accounts and savings accounts.

As of December 31, 2006, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years	Total
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(in millions of constant Ch\$ as of December 31, 2006)

<b>Commercial Commitments</b>					
Letters of Credit	Ch\$ 241,522				Ch\$ 241,522
Guarantees	442,391	Ch\$ 259,159	Ch\$ 44,792	Ch\$ 495	746,837
Total other commercial commitments	Ch\$ 683,913	Ch\$ 259,159	Ch\$ 44,792	Ch\$ 495	Ch\$ 988,359

**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 2005 and their term expires in March 2008. Our alternate directors were appointed in March 2006. The current chairman of the board, Pablo Granifo, was elected in March 2007 to fill the vacancy created by the resignation of Fernando Cañas.

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	48
Andronico Luksic C.	Vice chairman	53
Jorge Awad M.	Director	62
Jacob Ergas E.	Director	72
Thomas Fürst F.	Director	76
Guillermo Luksic C.	Director	51
Rodrigo Manubens M.	Director	48
Gonzalo Menendez D.	Director	58
Hernan Büchi B.	Director	58
Francisco Perez M.	Director	48
Jaime Estevez V.	Director	61
Jorge Diaz V.	Alternate director	64
Jorge Ergas H.	Alternate director	38

*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. and Banchile Factoring 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 2005, 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 is also a member of the Advisory Board of the Panama Canal Authority and the Asia-Pacific Economic Cooperation Business Advisory Council. He was Chairman of the board of directors of Banco O Higgins and subsequently Chairman of the board of directors of Banco Santiago until May 1999. Mr. Luksic was Director and Chairman of the board of directors of Banco de A. Edwards from September 1999 to December 2001. Mr. Luksic is a brother of Mr. Guillermo Luksic.

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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, Universidad Miguel de Cervantes 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. Mr. Ergas is the father of Mr. Jorge Ergas H.

*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 Cervecerías Unidas S.A. and a member of the board of directors of several other companies, including Embotelladoras Chilenas 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.

*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 between March 2001 and 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.

*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 chairman of, Banchile Administradora General de Fondos S.A., a member of the board of directors of Banchile Factoring S.A., Banchile Compañía de Seguros de Vida S.A. and a member of the executive committee of Banchile Corredores de Seguros Limitada. 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.

*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 Asesoría 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

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Group Antofagasta Minerals S.A., Antofagasta Railway, Minera Los Pelambres, and Aguas de Antofagasta S.A. 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.

*Hernan Büchi B.* has been a member of our board of directors since 2007. He is Chairman of the Board of the Center for the International Economy of Liberty and Development, member of the Board of the Institute Liberty and Development and Chairman of the Board of Trustees of Universidad del Desarrollo. Mr. Büchi has served in the government of Chile as Undersecretary of the Economy (1979-80), Undersecretary of Health (1980-83), Minister of Planning (1983-84), Superintendent of Banks and Financial Institutions (1984-85) and Minister of Finance (1985-89). Between 1979-89 he was Chairman of the Board and/or Member of the Board of several state-owned companies including ENDESA, CAP, IANSA, FFCC, CTC and Codelco. In 1989 he was Candidate for the Presidency of Chile. Mr. Büchi, has a degree in Civil Engineering from Universidad de Chile, and has participated in postgraduate studies at Columbia University.

*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 Cervecerías 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 Vicepresident 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 Protección, 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 and has pursued post-graduate studies in Philosophy.

*Jorge Diaz V.* on February 23, 2006 was elected as an Alternate Director, after having been appointed Advisor to the board of directors on March 17, 2005. Mr. Diaz is the Chairman of the board of directors of Redbanc S.A, Sociedad Operadora de Tarjetas de Credito Nexus S.A. and Servipag Limitada, and Director of Transbank S.A. and Administrador Financiero de Transantiago S.A. Mr. Diaz was the Intendent at the Chilean Superintendency of Banks from 1976 to 1980, Director of Banco del Pacifico from 1980 to 1981, the administrator (appointed by the Chilean Superintendency of Banks) at Banco Unido de Fomento from 1982 to 1985, Chief Executive Officer of Banco Concepcion (now Corpbanca) from 1986 to 1991 and advisor of O Higgins Central Hispano S.A. until 1999. He was a Director at Banco de A. Edwards from March 2001 to December 2001, after having been elected as an Alternate Director in March 2000. He holds a degree in economics from the Pontificia Universidad Católica de Chile.

*Jorge Ergas H.* was elected as an alternate director of our board of directors in 2005, and has been an advisor to our board of directors since 2002. Mr. Ergas is vice chairman of Banchile Compañía de Seguros de Vida S.A., chairman of Movicenter and a director of Inersa S.A., Ever I BAE and Ever II HNS. Mr. Ergas was previously a director of Hotel Plaza San Francisco, Casa Piedra, HNS and Inmobiliaria Paidahue. Mr. Ergas is the son of Mr. Jacob Ergas E.

**Table of Contents****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	57
Arturo Concha U.	Manager Financial division	53
Nelson Rojas P.	General legal counsel	53
Julio Guzman H.	Manager Corporate and international division	53
Mauricio Baeza L.	Manager Credit risk division	44
Alejandro Herrera A.	Manager Individual banking and branches	50
Marcelo Caracci L.	Manager Operations and technology division	57
Jennie E. Coleman A.	Manager Human resources division	53
Arturo Tagle Q.	Manager Planning and research division	48
Gonzalo Rios D.	Manager Marketing division	38
Pedro Bolados M.	Manager Risk control division	49
Eduardo Ebensperger O.	Manager Middle market division	42
Juan Cooper A. .	Manager Banco Credichile division	46
Oscar Mehech C.	Manager Global compliance division	42

*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.

*Arturo Concha U.* has been the manager of the financial division since 1986. He was chief financial officer at Banco Bice from 1985 to 1986 and worked in several positions, including chief financial officer at Banco Colocadora Nacional de Valores from 1976 to 1985. Presently, Mr. Concha is chairman of the board of directors at Sociedad Interbancaria de Depositos de Valores S.A. and a member of the board of directors of Deposito Central de Valores S.A. and Banchile Securitizadora S.A. Mr. Concha holds degrees in commercial engineering and accounting from the Pontificia Universidad Católica de Chile and participated in the International Senior Management Program at Harvard Business School.

*Nelson Rojas P.* has been our general legal counsel and the secretary of our board of directors since 2004. In 2002, he joined us as in-house legal counsel. Mr. Rojas joined Banco de A. Edwards in 1987 and was the general legal counsel and secretary of the board of directors 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.

*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.

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*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 member of the board of directors of Santiago Administradora de Fondos de Inversion. Mr. Baeza is a member of the board of directors of Socofin S.A. He is also a member of the investment committee of Banchile Fondo Inmobiliario. He holds a degree in civil engineering from the Pontificia Universidad Catolica de Chile.

*Alejandro Herrera A.* has been the manager of the individual banking and branches division since 2002. From 2006 he is also manager of medium market banking. He has 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, as the chief executive officer of Administradora de Fondos Mutuos Santiago S.A. from 1994 to 1995 and as branches 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., Banchile Securitizadora 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 Catolica de Valparaiso.

*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 Catolica 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.

*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 Catolica 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 Tecnologico 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 Catolica 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.

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*Juan Cooper A.* has been the manager of the Banco Credichile 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.

*Oscar Mehech C.* has been the global compliance division manager since April 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 deputy General Counsel of Banco de A. Edwards, which he joined in 1991. Mr. Mehech is a member of the executive committee for anti-money laundering of the Chilean Banks Association and holds a law degree from Universidad de Chile.

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

**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, 2006. These amounts include remuneration for services, fees for attendance at board meetings, committee meetings and subsidiary board meetings and consulting and travel expenses.

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, 2006)	Ch\$	Ch\$		
Fernando Cañas B. (1)	Ch\$ 315.3	Ch\$ 41.8	Ch\$ 234.6		Ch\$ 591.7	
Andronico Luksic C.	130.8	8.2			139.0	
Jorge Awad M.	43.6	21.8	82.6		148.0	
Jacob Ergas E.	43.6	15.5	56.4		115.5	
Thomas Fürst F.	43.6	19.1	67.3		130.0	
Guillermo Luksic C.	43.6	9.1			52.7	
Rodrigo Manubens M.	43.6	19.1	92.6	Ch\$ 8.2	163.5	
Gonzalo Menendez D.	43.6	21.8	118.1		183.5	
Maximo Pacheco M.	43.6	17.3	2.7		63.6	
Francisco Perez M.	43.6	19.1	53.6		116.3	
Segismundo Schulin-Zeuthen S.	43.6	19.1	40.0		102.7	
Edmundo Eluchans U.	7.2	2.7	4.5		14.4	
Jorge Ergas H. (2)	43.6	20.0	38.2		101.8	
Jorge Diaz V. (3)	36.4	17.3	34.6		88.3	
<b>Total</b>	<b>Ch\$ 925.7</b>	<b>Ch\$ 251.9</b>	<b>Ch\$ 825.2</b>	<b>Ch\$ 8.2</b>	<b>Ch\$ 2,011.0</b>	

(1) Mr. Cañas was elected as a director in 2005.

(2) Mr. Ergas was elected as an alternate director in 2006.

(3) Mr. Diaz was elected as an alternate director in 2006.

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, 2006, the aggregate amount of compensation paid to our senior management, including

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the senior management of our subsidiaries, was Ch\$5,190 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



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the year ended December 31, 2006, 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.

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\$15,965 million in expenses and Ch\$116 million in income from transactions other than loans with related parties in 2006.

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\$159,448 million in loans to, including Ch\$73,274 million in collateral pledged by, related parties as of December 31, 2006. 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

Thomas Fürst F.

Mr. Awad and Mr. Fürst were appointed as members of the directors/audit committee by the board of directors at the 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.

Messrs. Awad, Estevez and Fürst 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.

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.

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;

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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;

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***

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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.

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 five directors, in addition to our chief executive officer and the manager of our credit risk division.

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### ***Credit Committee***

The credit committee 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 our chief executive officer and the entire board of directors, with three directors required for a quorum.

### ***Finance and International Committee***

The finance and international 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 financial division manager, the corporate and international division manager, the planning and research division manager and the financial risk manager. 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.

### ***Asset Laundering and Financing of Terrorism 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.

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This Committee includes the Chairman of the Board, the Chief Executive Officer, the Legal Counsel, the Operations and Technology Division manager and the Chief Executive of Banchile Administradora General de Fondos. The Risk Control Division manager and the Global Compliance Division manager also serve as members of the Committee with full voting rights.

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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, a management entity that formalizes the tasks necessary to ensure that information we provide to the market is detailed, accurate and complete. The members of the disclosure committee include the investor relations manager, the principal accounting officer, deputy general counsel, the managers of the risk control division, research area, planning and research division and global compliance division, and, as 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 us.

### ***Ethics Committee***

The Ethics Committee was formed in 2005 to define and promote standards of professional and personal excellence among the company's staff consistent with the company's philosophy and values in order to enhance the bonds of trust between the company's 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 publishes, and reinforces the positive behavioral outcomes. The Committee also acts as the forum for resolving the various situations where there is a conflict between certain types of conduct and the values promoted by the company.

This Committee is chaired by the Human Resources Division manager and includes the Risk Control manager, Legal Counsel, the managers of the Risk Control, Individuals and Companies, Operations and Large Corporations Divisions.

### ***Corporate Risk Management Committee***

During December 2005, we established the corporate risk management committee, which reports to the directors/audit committee. The corporate risk management committee has the following functions:

to centralize and coordinate the activities of corporate risk management;



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to implement an integrated risk management scheme throughout the organization;

to provide information to our board of directors to optimize use of capital;

to inform the directors/audit committee, the finance and international committee, the portfolio committee and management of risk matters; and

to manage our relationships with regulatory entities.

***Global Compliance Division***

During 2005, we implemented initiatives to reinforce and ensure regulatory compliance, especially concerning internationally applicable rules preventing money laundering.

In July 2005, our board of directors approved a global policy on prevention of money laundering and financing of terrorism, applicable to all our affiliates, foreign branches and subsidiaries. The global policy is intended to meet the regulatory requirements of all the jurisdictions in which we operate.

In order to ensure compliance with these regulatory requirements, we created the global compliance division in April 2005. The division is independent and reports directly to the directors/audit committee. It has authority over all our affiliates, including our foreign branches and subsidiaries.

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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 under the Exchange Act, and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07*

**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 the NYSE independence and other audit committee standards that are not prescribed by Rule 10A-3.

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**NYSE Standards**

***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**

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,		
	2004	2005	2006
Banco de Chile	6,361	6,745	7,232
Overseas branches and representative offices	52	84	125
Subsidiaries	2,952	3,328	3,862
Total	9,365	10,157	11,219

At December 31, 2006, we had 11,219 employees (on a consolidated basis) of which approximately 2,340, or 20.9%, were unionized. All management positions are held by non-unionized employees. We are party to four collective bargaining agreements (one of which we assumed as part of the merger with Banco de A. Edwards) covering our unionized employees. These collective bargaining agreements were signed in December 2004 and expire in December 2008. We have not experienced a strike in the last 10 years and consider relations with our employees to be satisfactory.

We have a comprehensive personnel training and development program that includes internal courses on operational, technical and commercial subjects as well as participation in external seminars. In 2006, the total cost of training programs was approximately 0.859% 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 May 10, 2007, Quiñenco S.A. owns 21.11% of our outstanding shares (directly and indirectly through LQ Inversiones Financieras S.A.). Additionally, Quiñenco S.A. holds 52.14% 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.).

On June 28, 2007, Quiñenco S.A. informed us that it had begun discussions with Citigroup Inc. aimed at establishing a strategic partnership to manage their financial operations in Chile. We cannot assure you that Quiñenco's discussions with Citigroup Inc. will result in any such strategic partnership or, if the discussions are fruitful, what the terms of any such strategic partnership would be.

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 May 10, 2007, these holding companies own 2.39%, 2.39% and 1.64% of our outstanding shares, respectively. Mr. Ergas holds 6.41% of the voting rights in Banco de Chile through these holding companies.

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 May 10, 2007 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>
Quiñenco S.A. <sup>(2)</sup>	14,757,967,055	21.11%
Jacob Ergas <sup>(3)</sup>	4,481,947,063	6.41%
SM-Chile S.A.	40,732,220,639	58.26%
Directors and executive officers as a group (27 persons)	16,936,473	0.02%

(1) Percentages are based on 69,920,023,865 common shares outstanding as of May 10, 2007.

(2) As of December 31, 2006, 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. Quiñenco S.A. holds 21.11% of our shares directly and indirectly through LQ Inversiones Financieras S.A.

(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.

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.



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On December 24, 2004, we amended a master agreement that we entered into with Banchile Corredores de Seguros Limitada, our subsidiary, and Banchile Seguros de Vida S.A., an affiliate of Quiñenco S.A., as well as related agreements. The master agreement sets forth the general structure by which the Banchile Seguros de Vida S.A. provides mortgage loan insurance and non-mortgage loan insurance to our clients. The terms and prices set forth in the master agreement were based upon the market price for similar insurance products. The related agreements provide for:

our collection of insurance premiums from our clients for remittance to Banchile Seguros de Vida S.A.,

Banchile Seguros de Vida S.A.'s authorization to use our Banchile brand name,

Banchile Seguros de Vida S.A.'s access to our web page,

Banchile Seguros de Vida S.A.'s preferential right to offer life insurance to our individual borrowers and to use our distribution channels to offer general insurance to its customer base, and

life insurance that we acquire from Banchile Seguros de Vida S.A. for our borrowers.

On December 27, 2004, we entered into a service contract with Entel Chile S.A. to modernize our telecommunication systems. Quiñenco S.A. beneficially owns Entel Chile S.A. The contract was awarded in a competitive bidding process and is worth more than UF20,000 annually.

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.

**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. The activities contained in the action plan, which was approved by the regulatory authorities, included specific time periods for their execution.

The implementation of activities related to re-documentation of client folders and certain specific activities of the internal controls program of the branch have required more time than was anticipated in the estimates of the plan. However, this plan was fully completed on March 31, 2007. Currently, other actions are being implemented in connection with the fulfillment of the OCC and Federal Reserve Orders, as those actions must be completed prior to the end of the third quarter of 2007.

### **Dividends**

We currently have one class 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 one class of capital shares. In March 2007, we paid a nominal dividend of Ch\$ 1.9796 per share.

During an extraordinary shareholders meeting held on March 22, 2007, our shareholders resolved to pay a portion of our 2006 dividend in shares. In order to do so, our shareholders resolved to issue 882,459,200 new fully paid-in shares. On April 26, 2007, our board of directors agreed to distribute such new fully paid-in shares on May 10, 2007. On May 10, 2007, shareholders who were holders of record on May 4, 2007 received new fully paid-in shares at a ratio of 0.02213 new shares for each share held on May 4, 2007. As a consequence of the issuance of the new fully paid-in shares, we had 69,920,023,865 shares outstanding as of May 10, 2007.



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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:

	As of and for the Year Ended December 31,					
	2002	2003	2004	2005	2006	2006
	(in constant Ch\$ as of December 31, 2006, except for percentages in U.S.\$)					
Dividend payout ratio <sup>(1)</sup>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Dividend per common share <sup>(2)</sup>	2.20	0.85	2.09	2.45	2.25	0.0042
Dividend per F shares <sup>(2)(3)</sup>	0.49					

- (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.
- (3) As part of our merger with Banco de A. Edwards, Banco de A. Edwards shareholders received F shares of Banco de Chile. The F shares had all the same rights as our common stock, except that they entitled holders to receive dividends in 2002 with respect to Banco de A. Edwards' 2001 income. Once these dividends were declared and paid, the F shares automatically converted on a one-for basis into shares of our common stock. Accordingly, the F shares no longer exist.

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.\$ 173.8 billion as of December 31, 2006 and an average monthly trading volume of approximately U.S.\$ 2,397 million for 2006. 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, 2006, 283 series of shares were listed on the Santiago Stock Exchange.



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The Santiago Stock Exchange accounts for approximately 86.2% of all amounts traded in Chile. The ten largest companies in terms of market capitalization represented, as of December 31, 2006, approximately 48.3% of the Santiago Stock Exchange's aggregate market capitalization and during 2006 accounted for approximately 33.7% of its total volume. During 2006, 26.1% 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 13.0% 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 0.8% of equity is traded on the Valparaiso Stock Exchange.

ADSs, 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 ADSs. As of December 31, 2006, a maximum of 1,510,272 ADSs were outstanding (equivalent to 906,163,383 shares of common stock or 1.31% of the total number of issued shares of common stock). Since certain of our ADSs 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.

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The table below shows, for the periods indicated, the annual, quarterly and monthly high and low closing prices (in nominal Chilean pesos) of the shares of our securities on the Santiago Stock Exchange, the Electronic Stock Exchange, and the Valparaiso Stock Exchange:

	Santiago Stock Exchange Common Stock		Electronic Stock Exchange Common Stock		Valparaiso Stock Exchange Common Stock	
	High (Ch\$ per share ) <sup>(1)</sup>	Low	High (Ch\$ per share ) <sup>(1)</sup>	Low	High (Ch\$ per share ) <sup>(1)</sup>	Low
<b>Annual Price History</b>						
2002	Ch\$ 26.0	Ch\$ 16.8	Ch\$ 25.2	Ch\$ 16.5	Ch\$ 25.0	Ch\$ 17.0
2003	32.0	19.2	32.0	19.2	32.0	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
<b>Quarterly Price History</b>						
2005						
1 <sup>st</sup> Quarter	37.7	32.6	38.0	32.3	38.0	32.5
2 <sup>nd</sup> Quarter	34.0	32.0	34.2	32.0	34.0	30.0
3 <sup>rd</sup> Quarter	36.3	34.0	36.4	33.8	36.0	33.9
4 <sup>th</sup> Quarter	36.8	34.0	37.0	33.5	38.8	34.3
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
<b>Monthly Price History</b>						
December 2006	45.9	38.2	46.0	38.6	46.0	38.6
January 2007	47.0	41.8	47.3	41.5	47.1	41.5
February 2007	45.2	40.6	45.6	41.2	45.5	40.8
March 2007	45.0	41.9	45.0	41.0	45.5	42.5
April 2007	44.9	43.3	45.0	43.1	45.0	43.5
May 2007	44.8	40.5	44.4	40.0	44.6	40.9

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 ADS <sup>(1)</sup>		Latibex Trading Units <sup>(2)</sup>	
	High (U.S.\$ per ADS)	Low (U.S.\$ per ADS)	High (Euros per Trading Unit)	Low (Euros per Trading Unit)
<b>Annual Price History</b>				
2006	U.S.\$ 54.40	U.S.\$ 34.50	38.99	27.81
<b>Quarterly Price History</b>				
2006				
1 <sup>st</sup> Quarter	44.40	38.95	37.20	32.40
2 <sup>nd</sup> Quarter	41.30	34.50	33.35	27.87
3 <sup>rd</sup> Quarter	41.80	35.90	32.94	28.90
4 <sup>th</sup> Quarter	54.40	41.50	38.99	32.15
2007				
1 <sup>st</sup> Quarter	52.38	44.03	41.03	34.10
<b>Monthly Price History</b>				
December 2006	52.40	43.35	38.99	32.50
January 2007	52.38	45.50	41.03	35.15
February 2007	50.33	45.38	40.00	34.60
March 2007	50.58	44.03	37.60	34.10
April 2007	51.00	48.00	38.50	35.70
May 2007	51.25	46.19	38.00	34.48

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. For a description of the provisions of our *estatutos* related to our board of directors and our directors/audit committee, see Item 6. Directors, Senior Management and Employees and for those related to our dividends, see Item 8. Financial Information Consolidated Statements and Other Financial Information Dividends.

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.

### **Capitalization**

There is currently one outstanding series of our capital stock. We have a total of 69,920,023,865 outstanding shares. All of our shares are fully subscribed and paid and 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.

### **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.

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.

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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 and the price and 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 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 prior authorization is required solely when the acquiring bank or the resulting group of banks would own a significant market share in loans, defined by the Chilean Superintendency of Banks to be more than 20.0% of all loans in the Chilean banking system. The intended purchase may be denied by the Chilean Superintendency of Banks, or 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 total capital.



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The General Banking Law and the regulations issued by the Chilean Superintendency of Banks create the presumption 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 presumption 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 will 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, preemptive rights are exercisable or freely transferable by shareholders during a period that cannot be less than 30 days following the grant of such rights. During such period, and for an additional 30-day period thereafter, a Chilean company is not permitted to offer any unsubscribed shares for sale to third parties on more favorable terms than those offered to its shareholders. 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. Unsubscribed shares that are not sold on a Chilean stock exchange can be sold to third parties only on terms no more favorable to the purchaser than those offered to shareholders.

### **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. On March 22, 2007, an ordinary annual meeting of our shareholders was held. 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. During the extraordinary shareholders meeting held on March 22, 2007, the shareholders agreed to increase the Banks capital in the amount of Ch\$ 33,833,485,728 by means of an issuance of 882,459,200 fully paid-in shares. As agreed upon

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during the ordinary shareholders' meeting held on March 22, 2007, this increase in share capitalization will be charged to net income in fiscal year 2006 not distributed through dividends. In the extraordinary shareholders' meeting held on May 17, 2007, the shareholders resolved to carry out a capital increase in the amount of Ch\$110,000,000,000 by issuing 2,516,010,979 cash shares.

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. A vote by a two-thirds majority of the issued shares, however, 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;

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;

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

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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.

### **Dividend, Liquidation and Appraisal Rights**

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.

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.

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### **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.

### **Amendments to the Chilean Securities Laws and Chilean Corporations Law**

On December 20, 2000, the Chilean Congress enacted Law No. 19.705, which amended the Securities Market Law and the Chilean Corporations Law. Among the amendments introduced, Law No. 19.705 established that certain transactions may only be performed via a tender offer. In particular, the acquisition of shares with the intention of obtaining control of an open stock corporation, an offer to buy shares representative of 3% or more of the outstanding shares after obtaining control of an open stock corporation and the sale of shares by controlling shareholders when the price paid is substantially higher than the market price must all be performed by means of a tender offer. According to the Chilean Superintendency of Securities and Insurance, a price should be deemed substantially higher than the market price when it is 10% higher than the average market price for a period starting 90 calendar days and ending 30 calendar days before the proposed transaction.

The amendments introduced to the Chilean Corporations Law by the enactment of Law No. 19.705 also established that:

open stock corporations must create directors committees with the power to revise and approve transactions when the interest of the controlling shareholders is involved in those transactions. A majority of the committee's members must be independent directors, if there are any;

open stock corporations can offer stock options to their officers and employees when their general shareholders' meeting approves an increase of capital with the issuance of new shares, within a limit of 10% of the new shares issued;

open stock corporations can buy back their own shares with a limit of 5% of the paid-in capital and reserves;

mutual funds, as shareholders, can vote for the company's board of directors, but they cannot vote for a member of the board who is related to the controlling shareholders of the company; and

directors and shareholders who hold 5% or more of the outstanding shares have the right to sue for indemnification on behalf of the company for any damages that the company may suffer as a result of a third party's actions.

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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**

## Edgar Filing: BANK OF CHILE - Form 20-F

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,

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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).

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, future capital increases will be regarded as an ordinary foreign investment which will require that the Central Bank be informed of the transaction, and that the transaction be conducted exclusively through the Formal Exchange Market. However, the access to the Formal Exchange Market under these regulations will no longer be granted. 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 can we 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

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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%.

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.

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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;

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

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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.

### **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.

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**Table of Contents*****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.

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 2006 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 2007 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.

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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.

***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.



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**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**

We are exposed to market risks in our asset liability management portfolio and in our trading portfolio. Our asset liability management portfolio is comprised of our nontrading activities and arises from engaging in our core banking activities. It includes retail and corporate deposits, mortgage bonds, foreign borrowings, consumer, commercial and mortgage loans, and foreign trade transactions. Our trading portfolio comprises positions in financial instruments that are held by business units whose business strategy is to trade or to make markets. Thus, trading positions are valued at market prices on a daily basis and it includes government securities, local and foreign corporate bonds, foreign exchange positions, forwards on foreign exchange and currency and interest rate swaps.

**The Risk Process**

We control financial risk primarily through a series of limits, which are approved by the finance and international committee. See [Market Risk: Models and Measurement Asset Liability Portfolio](#) and [Market Risk: Models and Measurement The Trading Portfolio](#) for an explanation of these limits. The finance and international committee's membership is comprised of the chairman of our board of directors, our chief executive officer and the managers of the planning and research division, the financial division and the corporate and international division. The finance and international committee sets limits based on an analysis of our business strategy, market volatility, liquidity of the products involved, management experience and our overall risk tolerance.

The frequency with which we monitor our exposure to market risk depends on the nature of the portfolio. Market risk for the trading portfolio is monitored on a daily basis. A risk report, highlighting the level of market risk, with its evolution and risk concentrations by asset class and business unit is distributed to several business segment managers of the planning and research division, the financial division and the corporate and international division and to the other finance and international committee members.

Market risk for the asset liability portfolio is monitored on a monthly basis. The risk report for the asset liability portfolio focuses on interest rate risk for local and foreign currency and on the evolution of our assets and liabilities positions is monitored in local and foreign currency. The report is distributed to several business segment managers and to the finance and international committee members.

The financial risk department manages market risks. Fully independent of the trading groups, it reports directly to the manager of the planning and research division. The financial risk department oversees our local financial activities as well as those of our international operations. Its responsibilities include:

the establishment of a comprehensive market risk framework

the tracking of positions and the daily update of databases with market prices;

risk measurement, which involves the quantification of financial exposure, under normal and stress circumstances, using different risk models;

establishing policies, procedures and risk limits;

risk monitoring, where the level and the evolution of the different risks we are exposed to is analyzed;

the distribution of the risk report to senior management and the finance and international committee members;

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the verification of compliance with the board of directors established risk tolerance levels and limits and identification of any policy exceptions;

developing guidelines for new products and including new exposures within the current framework; and

applying new measurement methods to existing products.

The financial risk department is responsible for warning our business segments when they are about to exceed our risk limits. The finance and international committee is also notified whenever any of our business segments is about to exceed our risk limits. If the risk limit is exceeded, the responsible business segment must explain why the risk limit was exceeded, and the finance and international committee must meet to decide whether to eliminate the excess risk or grant a provisional limit increase. The finance and international committee updates risk limits once a year, unless market conditions change, in which case risk limits are updated more frequently, as needed.

**Table of Contents****Balance Sheet Structure**

The composition of our assets, liabilities and shareholders equity at December 31, 2006 by currency and term was as follows:

	At December 31, 2006					Percentage
	Ch\$	UF	Foreign Currency <sup>(1)</sup>	Total		
(in millions of constant Ch\$ as of December 31, 2006, except for percentages)						
<b>Assets<sup>(2)</sup>:</b>						
Cash and due from banks	Ch\$ 398,101		Ch\$ 820,972	Ch\$ 1,219,073		9.6%
<b>Other assets<sup>(1)</sup></b>						
Less than one year	3,127,432	1,389,888	1,559,845	6,077,165		47.8
From one to three years	568,889	1,110,920	154,288	1,834,097		14.4
More than three years	244,998	2,757,022	88,639	3,090,659		24.3
<b>Total financial assets</b>	<b>Ch\$ 4,339,420</b>	<b>Ch\$ 5,257,830</b>	<b>Ch\$ 2,623,744</b>	<b>Ch\$ 12,220,994</b>		<b>96.1%</b>
Other	378,538	1,640	97,748	477,926		3.7
Bank premises and equipment	149,375		2,302	151,677		1.2
Investment in other companies	7,693			7,693		0.1
Allowance for loan losses	(144,735)		(244)	(144,979)		(1.1)
<b>Total assets</b>	<b>Ch\$ 4,730,291</b>	<b>Ch\$ 5,259,470</b>	<b>Ch\$ 2,723,550</b>	<b>Ch\$ 12,713,311</b>		<b>100.0%</b>
<b>Percentage of total financial assets by currency</b>						
	35.51%	43.02%	21.47%	100.00%		
<b>Liabilities and shareholders equity<sup>(2)</sup>:</b>						
Non-interest bearing demand deposits	Ch\$ 1,911,832	Ch\$ 8,312	Ch\$ 322,067	Ch\$ 2,242,211		17.5%
<b>Other liabilities<sup>(1)</sup></b>						
Less than one year	2,881,727	1,048,449	1,928,747	5,858,923		45.6
From one to three years	49,020	1,211,038	87,941	1,347,999		10.5
More than three years	638,702	1,272,004	111,343	2,022,049		15.7
<b>Total financial liabilities</b>	<b>Ch\$ 5,481,281</b>	<b>Ch\$ 3,539,803</b>	<b>Ch\$ 2,450,098</b>	<b>Ch\$ 11,471,182</b>		<b>89.3%</b>
Other	273,242	10,409	256,527	540,178		4.2
Shareholders equity	639,383			639,383		5.0
2006 net income	195,248			195,248		1.5
<b>Total liabilities and shareholders equity</b>	<b>Ch\$ 6,589,154</b>	<b>Ch\$ 3,550,212</b>	<b>Ch\$ 2,706,625</b>	<b>Ch\$ 12,845,991</b>		<b>100.00%</b>
<b>Percentage of total financial liabilities and shareholders equity by currency</b>						
	47.78%	30.86%	21.36%	100.00%		
Asset/liability gap	Ch\$ (1,858,863)	Ch\$ 1,709,258	Ch\$ 16,925	Ch\$ (132,680)		

(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 Identification**

Market risk refers to potential losses arising from unfavorable market movements in inflation rates, interest rates or foreign exchange rates, as well as the correlation among these factors and their volatility. We are exposed to the material market risks described below because of the financial positions we maintain. See Market Risk: Models and Measurement.

***Interest rate risk***

We are exposed to interest rate risk in both our asset liability portfolio and in our trading portfolio. For the asset liability portfolio, interest rate risk arises from differences in the maturity or timing of our assets and liabilities. Changes in interest rates also affect the underlying economic value of our assets and liabilities, as

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the present value of future cash flows changes when interest rates change. As is explained below, we use two models to measure our asset liability management's portfolio's exposure to interest rate risk: an Interest Rate Gap Model and a Duration Gap Model.

For the trading portfolio, interest rate risk is the change in the value arising from changes in interest rates. To control interest rate risk we use different risk measures such as Value at Risk, Present Value Basis Point or PVBP and basis risk. See Market Risk: Value at Risk (VaR).

**Currency risk**

We are exposed to currency risk because of unequal amount between the asset and liability positions that we maintain in each currency, or currency mismatches, in our asset liability management portfolio as well as in our trading portfolio in any given period. Currency risk is managed in our trading portfolio. See Market Risk: Value at Risk (VaR).

In general, we maintain mismatches in local currency against the U.S. dollar and, to a lesser extent, against the Japanese Yen, Brazilian real, the Mexican peso and the euro. Other mismatches are not significant.

At December 31, 2006, our consolidated foreign currency-denominated assets and liabilities were denominated principally in U.S. dollars:

	At December 31, 2006		
	Assets	Liabilities	Net
	(in millions of constant en Ch\$ as of December 31, 2006)		
U.S. dollar <sup>(1)</sup>	Ch\$ 2,167,528	Ch\$ (2,314,326)	Ch\$ (146,798)
Japanese yen	452,269	(331,807)	120,462
Euro	70,532	(51,963)	18,569
Mexican pesos	13,218		13,218
Brazilian real	9,744		9,744
Pound sterling	1,041	(216)	825
Canadian dollar	421	(34)	387
Swiss franc	551	(282)	269
Other	8,246	(7,997)	249
Total	Ch\$ 2,723,550	Ch\$ (2,706,625)	Ch\$ 16,925

(1) Includes Ch\$72,158 million in assets and Ch\$449 million in liabilities denominated in foreign currencies and payable in Chilean pesos indexed to the U.S. dollar exchange rate.

**Inflation risk**

We are exposed to inflation risk because of differences between the asset and liability positions that we maintain in local currency. We have generally maintained more peso-denominated liabilities than peso-denominated assets and more UF-denominated assets than UF-denominated liabilities. The net asset position in UF is inflation-indexed whereas the net position in peso is not inflation-indexed. In 2006 the inflation rate was 2.6%. We believe that inflation risk is not significant for inflation has fluctuated only within a range of 1.1% and 4.5% since 2000.

**Market Risk Models and Measurement**

The data needed for our market risk models are obtained from brokers or government agencies with access to information provided by Reuters or Bloomberg or from information on prices located at issuers' Internet sites. We maintain a daily risk factor database for currency parities, bond prices and interest rates for different maturities and currencies.

**Table of Contents****Asset Liability Portfolio**

The finance and international committee's policies with respect to the asset liability portfolio protect net interest revenue on a pre-tax basis and the value of equity from unexpected changes in interest rates, while complying with the limits that have been imposed by Chilean banking regulators and those internally set by us. We use the Interest Rate Gap Model to measure the interest rate risk of our net interest revenue. The Duration Gap Model is used to measure the interest rate risk of our equity. Currency risk associated with our asset liability portfolio is managed using the Value at Risk, or VaR, methodology. See Market Risk: Value at Risk (VaR).

**12-Month Interest Rate Risk: The Interest Rate Gap Model**

Fluctuations in interest rates affect our reported earnings through changes in our net interest income and lead to repricing risk. Repricing risk results from differences in the timing of interest rate changes and the timing of cash flows that occur in the pricing and maturity of a bank's interest earning assets and liabilities. Any mismatch of interest earning assets and interest earning liabilities exists whenever an unequal amount of interest earning assets or interest earning liabilities mature or reprice in any given period, and is known as an interest gap position. A positive gap denotes assets sensitivity and normally means that an increase in interest rates would have a positive effect on net interest revenue, while a decrease in interest rates would have a negative effect on net interest revenue.

Our financial division is responsible for managing our interest rate gap for local and foreign currency and for defining internal financial transfer prices, especially minimum and maximum fund raising rates and the cost of funds for each of our active transactions. For this purpose, the finance division buys and sells all matched funds so that the business segments do not have to assume the transaction's financial risk. We only take mismatched interest rate positions in accordance with the policies and procedures established by the finance and international committee.

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 calculate the potential impact on net interest revenue over the next twelve months assuming a non-parallel shift in the yield curve for inflation indexed positions, and parallel shifts for non-inflation and dollar positions. To limit repricing risk, the finance and international committee has established that total potential losses resulting from these shifts cannot exceed a certain amount of net interest revenue. The following tables show, in nominal amounts, the average, low and high repricing risk for the years 2005 and 2006:

	Repricing Risk 2005			December 31, 2005
	Low	High	Average	
	(in millions of nominal Ch\$)			
Pesos position	Ch\$ 519	Ch\$ 5,816	Ch\$ 3,350	Ch\$ 5,816
UF position	1,967	8,970	5,366	1,967
Foreign currency position	59	733	400	59

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	Repricing Risk 2006			December 31, 2006
	Low	High (in millions of nominal Ch\$)	Average (in millions of nominal Ch\$)	
Pesos position	Ch\$ 911	Ch\$ 9,311	Ch\$ 4,564	Ch\$ 4,325
UF position	6	1,198	580	1,042
Foreign currency position	99	1,274	618	1,035

During 2006, the one-year gap in pesos remained negative. Since we expected interest rates in pesos to continue to go up during the year, we increased the size and the average maturity of our one-year gap. Consequently, the low, high and average repricing risk in pesos increased during the year. At the beginning the second quarter of 2006, we also started the process of closing the one year UF gap, principally by issuing time deposits in UF. This action was pursued because UF-denominated deposits are inflation-indexed and our expectations for the inflation of the year was lower than the market's expectation. As a result of a smaller one-year UF gap, the average repricing risk for the UF gap dropped from Ch\$5,366 million to Ch\$580 million. Finally, the low, high and average repricing risk for foreign currency increased during the year because we began using short-term foreign currency funding to finance the *Reserva Técnica*, a regulatory liquidity reserve requirement.

**Economic Interest Rate Risk: The Duration Gap Model**

Changes in interest rates also affect a bank's underlying economic value. This is called economic risk. The duration gap seeks to protect the economic value of our equity from unexpected changes in interest rates. To do so, potential losses for existing gaps for inflation-indexed and non-inflation position, and for dollar positions, are calculated assuming interest rate shifts based on different volatility scenarios. During 2006, the finance and international committee changed the limit that regulate potential losses resulting from these scenario analyses from a percentage of capital to a risk tolerance expressed in millions of pesos.

For ease of comparison, the first two tables show the average low and high economic risk exposure as a percentage of capital for the years 2005 and 2006. The last table shows economic risk in millions of pesos. The last columns of the three tables show our interest rate sensitivity as of December 31, 2005 and 2006.

	Economic Risks as a Percentage of Capital 2005			
	Low	High	Average	December 2005
Pesos position	0.41%	1.51%	0.82%	0.95%
UF position	1.10%	5.32%	2.66%	5.32%
Foreign currency position	0.05%	0.15%	0.10%	0.05%

	Economic Risks as a Percentage of Capital 2006			
	Low	High	Average	December 2006
Pesos position	1.52%	3.26%	2.70%	2.97%
UF position	3.48%	5.84%	4.68%	5.31%
Foreign currency position	0.08%	0.69%	0.27%	0.35%

	Economic Risks 2006 (in millions of nominal Ch\$)			
	Low	High	Average	December 2006
Pesos position	9,031	19,382	16,008	17,647
UF position	20,714	34,701	27,796	31,590
Foreign currency position	507	4,279	1,674	2,151

We maintain a positive medium-term and long-term gap in UF, which is financed with a negative peso gap and, since the third quarter of the year, with a negative one-year UF gap. Because we looked forward to a drop in medium-term and long-term interest rates in UF and that expected inflation for these terms fluctuated around 3 percent a year, we increased the size of our medium-term and long-term UF gap during 2006. As a



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result of the increase, the low, average and high economic risk as a percentage of capital for the UF gap increased during the year. The average economic risk for the peso position also rose during the year, going from 0.82% to 2.70% or Ch\$ 16,008 million. The greater risk for this position is a consequence of the increase in the gap that was required to finance the larger medium-term and long-term UF gap. Finally, average economic risk for the foreign currency position remained low, going from 0.10% in 2005 to 0.27% (e.g., Ch\$ 1,674 million) in 2006, with the one-year gap contributing to most of this risk.

### ***The Trading Portfolio***

Because no single measure can reflect all aspects of market risk, we use several risk measures, both statistical and non-statistical, to control the market risk of our trading portfolio. The statistical measure is VaR. The non-statistical measures are stress testing, Present Value Basis Point, or PVBP, basis risk and volume limit for fixed income portfolio and currency mismatch.

### ***New Regulations on Market Risks***

In September 2005, the Central Bank instituted new regulations aimed at measuring and controlling market risk. For a discussion of the new regulations, see Item 4. Information on the Company Regulation and Supervision Market Risk Regulations.

### ***Market Risk: Value at Risk (VaR)***

Market risk is defined as the sensitivity of the value of the trading portfolio to changes in market parameters such as interest rates and exchange rates. We measure and control our market risk through VaR. VaR provides an estimate of potential market losses over a specified time horizon at a defined level of confidence.

The trading portfolio is comprised by our positions in fixed income and in foreign exchange. Fixed income positions refer to instruments that are tradable on the market and that are sufficiently liquid so that daily market valuations and daily risk measurements are necessary to manage actual and potential losses on a timely basis. There is no portfolio classification for held to maturity in Chile. Consequently, all instruments that are tradable on the market must be classified as trading or available for sale instruments. Instruments included in the fixed income portfolio are Central Bank bonds, mortgage bonds, corporate bonds issued by local or foreign issuers and sovereign bonds. The foreign exchange position includes both the currency risk of the fixed income positions and the currency risk associated with our asset liability portfolio.

The VaR estimates are based on the Riskmetrics methodology to measure market risk. Riskmetrics uses a 95% confidence interval, a one-day holding period and an exponential moving average model with 74 historical observations to forecast variances and covariances. The calculated VaR is adjusted by market liquidity, modeling bid-ask spreads. In addition to the total VaR, VaRs estimated by market parameters and asset class are also computed.

VaR estimated by market parameters shows the amount of risk due to:

foreign exchange risk measured as the exposure to the volatility of the U.S. dollar; and

interest rate risk represented in terms of the exposure to the relevant yield curve for the Chilean peso, UF and U.S. dollar.

The VaR estimated by asset class shows the amount of risk due to:

our foreign exchange portfolio;

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our short term fixed income portfolio, which includes: forwards, short-term instruments issued by the Central Bank, time deposits in Chilean pesos, UF and U.S. dollars and floating notes; and

our fixed income portfolio, which includes long term Central Bank securities, mortgage bonds, local corporate bonds, foreign corporate bonds and interest rate swaps and cross currency swaps.

Our financial Risk Department rechecks the VaR model on an on-going basis to assess its accuracy. The results of these tests have supported the reliability of our VaR model.

The following tables show the median, low and high daily VaR for the years 2005 and 2006, along with VaR at December 31, 2005 and 2006.

	Period Ended December 31, 2005			At December 31,
	Median VaR	Minimum VaR	Maximum VaR	2005
	(in millions of nominal Ch\$)			VaR
Foreign exchange	Ch\$ 90	Ch\$ 24	Ch\$ 122	Ch\$ 25
Interest rate risk	367	146	1,107	805
Less: portfolio diversification	(54)	(13)	(93)	(24)
Total VaR	Ch\$ 403	Ch\$ 157	Ch\$ 1,136	Ch\$ 806

	Period Ended December 31, 2006			At December 31,
	Median VaR	Minimum VaR	Maximum VaR	2006
	(in millions of nominal Ch\$)			VaR
Foreign exchange	Ch\$ 106	Ch\$ 118	Ch\$ 120	Ch\$ 82
Interest rate risk	439	220	778	472
Less: portfolio diversification	(80)	(113)	(109)	(117)
Total VaR	Ch\$ 465	Ch\$ 225	Ch\$ 789	Ch\$ 437

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The chart below compares the VaR estimates with no-action-profit and loss, or NAPL, over the last 12 months ended on December 2006. NAPL describes the hypothetical profit and loss on the position that would have been incurred if the previous day's closing position had been kept for the next 24 hours and then revalued.

In the chart below, the bars represent the daily NAPL whereas the line below the bars represents the daily VaR. We check the VaR model on an on-going basis to assess its accuracy. During 2006, the NAPL exceeded the calculated VaR on two occasions, which is within the model expectations.

*Assumptions and Limitations of the VaR Model.* Our VaR model assumes that changes in market risk factors have a normal distribution and that the parameters of this joint distribution have been estimated correctly. The normal distribution assumption, however, may result in our underestimating the probability of extreme market moves. For this reason, we also assess stress risk, or the potential loss due to extreme changes in risk factors. Stress testing is explained more thoroughly below. Another limitation to VaR testing is that while we compute VaR at the close of business, trading positions may change substantially during the course of the trading day and, thus, go unnoticed.

### ***Non-statistical Risk Measures***

*Stress Risk.* Stress risk is our exposure to unlikely but plausible changes, or outlier events, in risk factors resulting from maintaining prevailing positions after the close of a business/trading day. An extreme event is defined as a price variation that is beyond the 95% confidence level defined for normal analysis. Once the market movements for specific risk factors have been determined, they are applied to the portfolio. Then the portfolio is revalued to see the effect of the market move on the value of the portfolio. On a daily basis, the financial risk department performs a stress analysis. The stress analysis is done under two different methods: a standard VaR approach (parametric) and a historical simulation approach, since we believe that VaR may be subject to model risk. The standard VaR approach assumes that each risk factor experiences a decline in value greater than 3.5 standard deviations of the mean return and assumes zero correlation among asset classes. The financial risk department also computes a VaR figure using the historical simulation method. This amount is obtained from historical data that goes back 381 days from the date of the calculation.

*Present Value Basis Point or PVBP.* The PVBP is the change in an instrument's value associated with the change in the reference yield of 1 basis point, or 0.01%. The finance and international committee has approved the PVBP risk limit. As of December 2006, the PVBP for the peso portfolio was Ch\$24 million, for

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the UF portfolio Ch\$164 million, and for the USD portfolio Ch\$6 million. As of December 2005, the PVBP for the peso portfolio was Ch\$12 million, Ch\$177 million for the UF portfolio and for the USD portfolio Ch\$23 million.

*Basis Risk.* Basis risk is the possibility of loss from imperfectly matched risk, offsetting positions in two related but not identical markets. We control our exposure to the basis risk between our Chilean foreign bonds portfolio and the interest rate swaps used to hedge them. As of December 2006, one basis point of basis risk was worth Ch\$52 million. As of December 2005, one basis point of basis risk was worth Ch\$35 million.

*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 size of our fixed income portfolio.

*Currency Risk.* The finance and international committee has determined that our net foreign currency mismatches cannot exceed a certain percentage of our capital. As of December 31, 2006, the net position of our foreign currency denominated assets and Chilean peso-denominated assets that contain repayment terms linked to changes in foreign currency exchange rates exceeded our foreign currency denominated liabilities and Chilean peso-denominated liabilities that contain repayment terms linked to changes in foreign currency exchange rates by Ch\$16,925 million, equivalent to 2.6% of our paid-in capital and reserves.

The rate of devaluation or appreciation of the peso against the U.S. dollar is expected to have the following material effects:

If we maintain a net asset position in U.S. dollars, and the peso devaluates against the dollar, we record a related gain (conversely, if the peso appreciates we record a related loss).

If we maintain a net liability position in U.S. dollars, and the peso devaluates against the dollar, we record a related loss (conversely, if the peso appreciates we record a related gain).

It is our policy to make foreign currency-denominated loans only to customers whose activities generate foreign currency-denominated cash flow or that are indexed to a foreign currency, or if the market value of a customer's assets is indexed to the rate of exchange. At December 31, 2006, approximately 14% of our consolidated total loan portfolio was denominated in foreign currencies.

We enter into forward exchange contracts that are essentially of two types:

transactions covering U.S. dollars against other foreign currencies; and

transactions covering only Chilean pesos and UFs against U.S. dollars.

The following table presents notional amounts of our derivatives contracts at December 31, 2006:

	<b>At December 31, 2006</b>	
	<b>Notional Amount</b>	
	<b>(in millions of constant Ch\$ as of December 31, 2006)</b>	
Currency forwards	Ch\$	3,655,156
Interest rate swaps		921,892
Currency and rate swaps		144,236
Call options		682,801
<b>Total</b>	<b>Ch\$</b>	<b>5,404,085</b>



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The following table presents foreign currency exchange rate risk instruments as of December 31, 2006, in notional amounts, for the next two years:

	As of December 31, 2006		Total
	2007	2008	
(in millions of constant Ch\$ as of December 31, 2006)			
<b>Purchased:</b>			
Pay Chilean pesos / receive U.S. dollars	48,099	10,689	58,788
Pay Chilean pesos / receive UF	194,366	18,336	212,702
Pay U.S. dollars / receive Canadian dollars		1,451	1,451
Pay U.S. dollars / receive Pound sterling	5,200	839	6,039
Pay U.S. dollars / receive Japanese yen	96	98,351	98,447
Pay U.S. dollars / receive euros	5,210	3,534	8,744
Pay Chilean pesos / receive U.S. dollars	1,012,861	185,962	1,198,823
Pay UF / receive U.S. dollars	13,468	76,402	89,870
Pay Chilean pesos / receive Canadian dollars	392		392
Pay Chilean pesos / receive Pound sterling	4,512	1,049	5,561
Pay Chilean pesos / receive euros	2,743	352	3,095
<b>Subtotal</b>	<b>1,286,947</b>	<b>396,965</b>	<b>1,683,912</b>
<b>Sold:</b>			
Futures Contract Pay euros / receive U.S. dollars	17,936		17,936
Futures Contract Pay Japanese yen / receive U.S. dollars	4,778		4,778
Pay U.S. dollars / receive Chilean pesos	297,945	16,033	313,978
Pay UF / receive Chilean pesos	190,698	25,671	216,369
Pay Canadian dollars / receive U.S. dollars	392	1,451	1,843
Pay Pound sterling / receive U.S. dollars	10,147	1,889	12,036
Pay Japanese yen / receive U.S. dollars	213,956		213,956
Pay euros / receive U.S. dollars	6,608	3,886	10,494
Pay U.S. dollars / receive Chilean pesos	1,114,501	37,140	1,151,641
Pay U.S. dollars / receive UF	17,307	9,500	26,807
Pay Japanese yen / receive Chilean pesos	96		96
Pay euros / receive Chilean pesos	1,310		1,310
<b>Subtotal</b>	<b>1,875,674</b>	<b>95,570</b>	<b>1,971,244</b>
<b>Total</b>	<b>3,162,621</b>	<b>492,535</b>	<b>3,655,156</b>

**Foreign Operations**

We apply the same policies and procedures described above with respect to the New York branch and the Miami branch. The only difference is the participation of their respective general managers on the proposal of limits and flow distribution standards. The manager of the corporate and international division is a permanent member of the finance and international committee. We place particular emphasis on monitoring interest rate risk over the total financial position and market risk of the portfolio of sovereign and corporate bonds maintained by the branches. The New York branch and the Miami branch do not maintain any other positions significant enough to warrant risk calculation. We perform control over the New York branch and the Miami branch individually and on a consolidated basis with the head office in Chile.

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### **Credit Risk for Derivatives**

We make use of derivative transactions in the course of business to meet the financial needs of our customers, to generate revenues through our trading activities, and to manage our exposure to fluctuations in interest and currency rates. We use the same credit risk management procedures when entering into derivative transactions as we do for traditional lending products. Our primary counter-parties 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 contracts at a point in time (*i.e.*, the cost to replace the contract at the current market rates should the counter-party default prior to the settlement). For most derivative transactions, the notional principal amount does not change hands; 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. As of December 31, 2006, the credit exposure of our foreign exchange forwards was Ch\$9,222 million.

### **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.

### **Item 15T. 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, 2006. 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.

Management of the company 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;





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(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, 2006. 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, 2006.

There has been no change in our internal control over financial reporting during 2006 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.

**Table of Contents****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, 2005 and 2006:

	Year ended December 31, 2005                      2006 (in millions of constant Ch\$ as of December 31, 2006)	
Audit fees	Ch\$ 456	Ch\$ 558
Audit-related fees		6
Tax fees	8	5
Other fees	5	45
<b>Total fees</b>	<b>Ch\$ 469</b>	<b>Ch\$ 614</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.

Tax fees in the above table are fees billed by Ernst & Young Limitada for tax-related services.

Other fees in the above table are fees billed by Ernst & Young Limitada related to compensation research studies for 2006, the audit and comfort letter process related to the issuance of Rule 144A bonds in the United States.

**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, 2006.

**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 depository, 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).
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 29, 2007

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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.

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Application of Constant Chilean Pesos

The December 31, 2004 and 2005 consolidated financial statements have been restated for general price-level changes and expressed in constant Chilean pesos of December 31, 2006 purchasing power.

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**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated balance sheets of Banco de Chile (the Bank ) as of December 31, 2005 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, 2006. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Bank's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco de Chile as of December 31, 2005 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, 2006, 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 respect from accounting principles generally accepted in the United States of America (see Note 28 to the consolidated financial statements).

ERNST & YOUNG LIMITADA

Santiago, Chile, January 25, 2007

(except for Note 28 for which the date is June 8, 2007)

**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, 2006 and thousands of U.S. dollars)

		As of December 31,		2006
	NOTE	2005 MCh\$	2006 MCh\$	ThUS\$ (Note 1 (q))
<b>ASSETS</b>				
<b>CASH AND DUE FROM BANKS</b>				
	3			
Non-interest bearing		652,015	865,513	1,619,507
Interbank deposits-interest bearing		21,139	353,560	661,565
<b>Total cash and due from banks</b>		<b>673,154</b>	<b>1,219,073</b>	<b>2,281,072</b>
<b>INVESTMENTS PURCHASED UNDER AGREEMENTS TO RESELL FINANCIAL INVESTMENTS</b>				
	4	<b>47,676</b>	<b>53,314</b>	<b>99,759</b>
Trading securities		1,367,455	1,197,372	2,240,466
Available for sale		25,162	40,066	74,970
Held to maturity		15,739	16,003	29,944
<b>Total financial investments</b>		<b>1,408,356</b>	<b>1,253,441</b>	<b>2,345,380</b>
<b>LOANS, NET</b>				
	5			
Commercial loans		3,584,631	3,970,909	7,430,176
Consumer loans		882,291	1,072,324	2,006,482
Mortgage loans		684,424	581,218	1,087,547
Foreign trade loans		562,336	677,296	1,267,324
Interbank loans		25,537	43,019	80,495
Leasing contracts	6	464,356	539,176	1,008,880
Other outstanding loans		1,363,056	1,762,225	3,297,391
Past due loans		72,847	61,685	115,422
Contingent loans		738,770	987,314	1,847,415
Allowance for loan losses	7	(144,272)	(144,979)	(271,278)
<b>Total loans, net</b>		<b>8,233,976</b>	<b>9,550,187</b>	<b>17,869,854</b>
<b>DERIVATIVE INSTRUMENTS</b>				
	13		<b>50,501</b>	<b>94,495</b>
<b>OTHER ASSETS</b>				
Bank premises and equipment, net	8	145,441	151,677	283,811
Investments in other companies	9	7,310	7,693	14,395
Assets received in lieu of payment, net		10,669	10,799	20,207
Other	10(a)	386,461	463,601	867,467
<b>Total other assets</b>		<b>549,881</b>	<b>633,770</b>	<b>1,185,880</b>
<b>TOTAL ASSETS</b>		<b>10,913,043</b>	<b>12,760,286</b>	<b>23,876,440</b>

The accompanying notes 1 to 28 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, 2006 and thousands of U.S. dollars)

		As of December 31,		
	NOTE	2005 MCh\$	2006 MCh\$	2006 ThUS\$ (Note 1 (q))
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
<b>DEPOSITS</b>				
Non-interest bearing				
Current accounts		1,548,060	1,738,972	3,253,882
Bankers drafts and other deposits		494,691	503,239	941,637
Total non-interest bearing		<b>2,042,751</b>	<b>2,242,211</b>	<b>4,195,519</b>
Interest bearing				
Savings accounts and time deposits		4,710,131	5,788,816	10,831,757
Total deposits		<b>6,752,882</b>	<b>8,031,027</b>	<b>15,027,276</b>
<b>OTHER INTEREST BEARING LIABILITIES</b>				
Central Bank credit lines for renegotiations of loans	11	1,436	824	1,542
Other Central Bank borrowings				
Total Central Bank borrowings		<b>1,436</b>	<b>824</b>	<b>1,542</b>
Investments sold under agreements to repurchase		276,435	306,855	574,172
Mortgage finance bonds		568,191	477,637	893,732
Bonds		331,522	554,272	1,037,127
Subordinated bonds		311,696	405,942	759,579
Borrowings from domestic financial institutions		92,054	88,261	165,150
Foreign borrowings		675,384	591,573	1,106,923
Other obligations		34,452	26,432	49,458
Total other interest bearing liabilities		<b>2,291,170</b>	<b>2,451,796</b>	<b>4,587,683</b>
<b>DERIVATIVE INSTRUMENTS</b>				
	13	<b>61,277</b>	<b>69,955</b>	<b>130,897</b>
<b>OTHER LIABILITIES</b>				
Contingent liabilities	10(c)	739,109	988,359	1,849,370
Other	10(b)	277,220	384,516	719,488
Minority interest		1	2	4
Total other liabilities		<b>1,016,330</b>	<b>1,372,877</b>	<b>2,568,862</b>
<b>SHAREHOLDERS EQUITY</b>				
Capital and reserves	15	606,865	639,383	1,196,383
Net Income for the year		184,519	195,248	365,339
Total Shareholders equity		<b>791,384</b>	<b>834,631</b>	<b>1,561,722</b>

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<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>10,913,043</b>	<b>12,760,286</b>	<b>23,876,440</b>
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The accompanying notes 1 to 28 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, 2006 and thousands of U.S. dollars)

		Years ended December 31,			2006
	NOTE	2004 MCh\$	2005 MCh\$	2006 MCh\$	ThUS\$ (Note 1 (q))
<b>INTEREST REVENUE AND EXPENSE</b>					
Interest revenue		597,371	697,784	777,654	1,455,109
Interest expense		(227,283)	(316,677)	(372,244)	(696,525)
Net interest revenue		<b>370,088</b>	<b>381,107</b>	<b>405,410</b>	<b>758,584</b>
<b>PROVISION FOR LOAN LOSSES</b>					
	7-19	<b>(42,073)</b>	<b>(22,491)</b>	<b>(36,228)</b>	<b>(67,788)</b>
<b>FEES AND INCOME FROM SERVICES</b>					
	17				
Income from fees and other services		173,701	187,678	192,447	360,098
Other services expenses		(40,453)	(47,501)	(58,906)	(110,222)
Total fees and income from services, net		<b>133,248</b>	<b>140,177</b>	<b>133,541</b>	<b>249,876</b>
<b>OTHER OPERATING INCOME (LOSS)</b>					
Gains from trading activities		21,452	14,511	40,741	76,233
Losses from trading activities		(46,955)	(30,731)	(8,160)	(15,269)
Foreign exchange transactions, net		19,092	24,155	(10,802)	(20,212)
Total other operating income (loss), net		<b>(6,411)</b>	<b>7,935</b>	<b>21,779</b>	<b>40,752</b>
<b>OTHER INCOME AND EXPENSES</b>					
Non-operating income	17	5,104	8,024	16,717	31,279
Non-operating expenses	17	(16,797)	(15,081)	(13,842)	(25,901)
Equity participation in net income (loss) in investments in other companies	9	461	696	1,031	1,929
Minority interest		(1)		(1)	(2)
Total other income and expenses		<b>(11,233)</b>	<b>(6,361)</b>	<b>3,905</b>	<b>7,305</b>
<b>OPERATING EXPENSES</b>					
Personnel salaries and expenses		(143,877)	(153,779)	(157,958)	(295,563)
Administrative and other expenses		(94,088)	(111,262)	(122,812)	(229,800)
Depreciation and amortization		(16,900)	(17,277)	(19,767)	(36,987)
Total operating expenses		<b>(254,865)</b>	<b>(282,318)</b>	<b>(300,537)</b>	<b>(562,350)</b>
<b>NET LOSS FROM PRICE-LEVEL RESTATEMENT</b>					
	1(b)	<b>(7,897)</b>	<b>(11,690)</b>	<b>(8,526)</b>	<b>(15,953)</b>
<b>INCOME BEFORE INCOME TAXES</b>		<b>180,857</b>	<b>206,359</b>	<b>219,344</b>	<b>410,426</b>
<b>INCOME TAXES</b>					
	21	<b>(19,414)</b>	<b>(21,840)</b>	<b>(24,096)</b>	<b>(45,087)</b>
<b>NET INCOME</b>		<b>161,443</b>	<b>184,519</b>	<b>195,248</b>	<b>365,339</b>

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The accompanying notes 1 to 28 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, 2006 and thousands of U.S. dollars)

	Years ended December 31,			
	2004 MCh\$	2005 MCh\$	2006 MCh\$ (Note 1 (n))	2006 ThUS\$ (Note 1 (q))
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	161,443	184,519	195,248	365,339
Items that do not represent cash flows:				
Depreciation and amortization	16,900	17,277	19,767	36,987
Provisions for loan losses	77,757	56,170	64,328	120,367
Provisions for assets received in lieu of payment	940	586	(1,990)	(3,724)
Net change in trading investments	336,319	228,071	123,054	230,253
Equity participation in net (income) loss in investments in other companies	(461)	(696)	(1,031)	(1,929)
Net gain on sales of assets received in lieu of payment	(5,807)	(5,179)	(3,739)	(6,996)
Net gain on sales of bank premises and equipment	(230)	(100)	(54)	(101)
Net loss from price-level restatement	7,897	11,690	8,526	15,953
Minority interest	1		1	2
Other charges not representing cash flows	9,781	10,775	28,313	52,978
Net change in interest accruals	3,460	(63,043)	25,241	47,230
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>608,000</b>	<b>440,070</b>	<b>457,664</b>	<b>856,359</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net increase in loans	(530,481)	(943,629)	(1,057,026)	(1,977,857)
Net (increase) decrease in investments purchased under agreements to resell	3,550	(20,813)	(6,601)	(12,352)
Purchases of bank premises and equipment	(13,021)	(18,656)	(22,141)	(41,429)
Proceeds from sale of bank premises and equipment	1,423	298	116	217
Investments in other companies	(309)	(1,700)		
Sale of investments in other companies	12	20	7	13
Dividends received from investments in other companies	775	572	629	1,177
Proceeds from sale of assets received in lieu of payment	17,678	15,175	9,206	17,226
Net changes in other assets and liabilities	(159,415)	(281,722)	(273,278)	(511,345)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(679,788)</b>	<b>(1,250,455)</b>	<b>(1,349,088)</b>	<b>(2,524,350)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net increase in current accounts	208,054	93,575	222,735	416,771
Net increase (decrease) in savings accounts and time deposits	242,178	923,483	1,158,438	2,167,614
Net increase (decrease) in bankers drafts and other deposits	35,624	(217,288)	18,772	35,125
Net increase (decrease) in investments sold under agreements to repurchase	(82,021)	(80,045)	36,159	67,659
Increase in mortgage finance bonds	141,791	521,720	50,704	94,875
Repayment of mortgage finance bonds	(337,035)	(731,684)	(118,446)	(221,631)
Proceeds from bond issues	184,390	172,841	329,500	616,545
Repayments of bond issues	(10,539)	(14,533)	(11,949)	(22,358)
Net increase (decrease) in short-term borrowings	122,963	(378,769)	246,923	462,031
Proceeds from issuance of long-term borrowings	248,210	723,535	510,095	954,466
Repayment of long-term borrowings	(455,374)	(335,470)	(835,507)	(1,563,361)

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Sale of repayment of shares		58,847		
Repurchase of shares	(55,809)			
Dividends paid	(138,090)	(155,828)	(149,730)	(280,168)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>104,342</b>	<b>580,384</b>	<b>1,457,694</b>	<b>2,727,568</b>
<b>EFFECT OF PRICE-LEVEL RESTATEMENT ON CASH AND DUE FROM BANKS</b>	<b>(19,479)</b>	<b>(38,899)</b>	<b>(20,351)</b>	<b>(38,079)</b>
<b>NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS</b>	<b>13,075</b>	<b>(268,900)</b>	<b>545,919</b>	<b>1,021,498</b>
<b>CASH AND DUE FROM BANKS AT BEGINNING OF YEAR</b>	<b>928,979</b>	<b>942,054</b>	<b>673,154</b>	<b>1,259,574</b>
<b>CASH AND DUE FROM BANKS AT END OF YEAR</b>	<b>942,054</b>	<b>673,154</b>	<b>1,219,073</b>	<b>2,281,072</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
<b>Cash paid during the year for:</b>				
Interest paid	252,560	290,703	356,316	666,722
Income taxes paid	34,319	32,807	35,456	66,344

The accompanying notes 1 to 28 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, 2006 and thousands of U.S. dollars)

	Number of shares Millions	Paid in share capital MCh\$	Reserves MCh\$	Other Accounts MCh\$	Net Income MCh\$	Total MCh\$
Balance as of January 1, 2004	68,079.8	482,504	78,741	3,878	130,553	695,676
Transfer to retained earnings			3		(3)	
Dividends paid (1)					(130,550)	(130,550)
Common stock repurchased (2)	(1,702.0)		(52,762)			(52,762)
Price-level restatement		12,062	(75)			11,987
Net change in unrealized gains (losses) on permanent financial investments (*)				(195)		(195)
Net adjustment for translation differences (* *)				(2,251)		(2,251)
Net Income for the year					152,628	152,628
Balance as of December 31, 2004	66,377.8	494,566	25,907	1,432	152,628	674,533
Balance as of December 31, 2004 restated in constant Chilean pesos as of December 31, 2006		523,130	27,403	1,515	161,443	713,491
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 (3)					(152,623)	(152,623)
Placement of shares (4)	1,702.0		57,637			57,637
Accumulated deficit development period (5)			(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, 2006		523,130	85,645	(1,910)	184,519	791,384
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 (6)	957.8	30,984			(30,984)	
Dividends paid (6)					(149,730)	(149,730)
Adjustment to fair value as result of adoption of Circular 3,345 (7)			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



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<b>Balance as of December 31, 2006</b>	<b>69,037.6</b>	<b>554,765</b>	<b>86,175</b>	<b>(1,557)</b>	<b>195,248</b>	<b>834,631</b>
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- (1) On March 18, 2004, the Ordinary General Shareholders Meeting agreed to distribute a dividend for a total of MCh\$130,550 (in historical pesos).
- (2) In April 2004, Banco de Chile purchased 1,701,994,590 shares issued by Banco de Chile at Ch\$ 31 per share for a total amount of MCh\$52,762 (in historical pesos), in accordance with the Share Repurchase Program issued by Banco de Chile and agreed upon at the Extraordinary Shareholders Meeting of Banco de Chile held on March 20, 2003.
- (3) On March 17, 2005, the Ordinary General Shareholders Meeting agreed to distribute a dividend for a total of MCh\$152,623 (in historical pesos).
- (4) 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).
- (5) 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.
- (6) 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).
- (7) 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).
- (\*) 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 (r)).

The accompanying notes 1 to 28 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, 2006)****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, 2005 and 2006 are as follows:

Subsidiary	Interest Owned %					
	2005			2006		
	Direct	Indirect	Total	Direct	Indirect	Total
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	99.52	0.48	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, 2006)****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, 2005 have been restated in Chilean pesos of general purchasing power as of December 31, 2006 ( constant pesos ), to reflect changes in the CPI from the financial statement dates to December 31, 2006. 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, 2006, as follows:

Year	Change in Index
2004	3.6%
2005	2.1%

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>
2004	117.28	2.5
2005	121.53	3.6
2006	124.11	2.1

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\* 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, 2006)

**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, 2006.

	Year ended December 31,		
	2004	2005	2006
	MCh\$	MCh\$	MCh\$
Shareholders' equity	(12,679)	(18,712)	(12,732)
Bank premises and equipment	3,194	4,771	2,941
Investment in other companies	63	220	140
Other, net	1,525	2,031	1,125
<b>Net loss from price-level restatement</b>	<b>(7,897)</b>	<b>(11,690)</b>	<b>(8,526)</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\$
2004	17,317.05
2005	17,974.81
2006	18,336.38

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

*(d) Interest revenue and expense recognition*

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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, 2006)**

**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, 2006)**

**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 a 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.

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.

*(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* .



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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, 2006)**

**1. Summary of Significant Accounting Policies (continued)**

*(f) Financial investments (continued)*

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.

Until December 31, 2005, investment securities 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.

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.

Until December 31, 2005, investment securities were classified as permanent and non-permanent. Investment securities 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 the equity line item *Unrealized gains and losses on available for sale securities* .

**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, 2006)****1. Summary of Significant Accounting Policies (continued)***(g) Bank premises and equipment*

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

<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

*(h) 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.

*(i) 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\$410,855 (MCh\$316,999 in 2005), corresponding to the amount advanced to the assigner plus accrued interest net of payments received.

*(j) 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.

*(k) Intangibles*

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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.

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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, 2006)**

**1. Summary of Significant Accounting Policies (continued)**

*(k) Intangibles (continued)*

As of December 31, 2006, intangible assets amount to MCh\$22,636 (MCh\$14,592 in 2005), corresponding to investments in software and MCh\$19 (MCh\$5 in 2005) corresponding to payments for licenses to use trademarks.

*(l) 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.

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 new regulations, as follows:

Category	Range of estimated loss	Allowance
C1	Up to 3%	2%

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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%

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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, 2006)**

**1. Summary of Significant Accounting Policies (continued)**

*(1) Allowance for loan losses (continued)*

**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.

**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.

**Previous Guidelines**

Global loan loss allowance

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Prior to 2004, the global loan loss allowance was calculated by multiplying Banco de Chile's outstanding loans by the greater of its risk index or 0.75%. Banco de Chile's risk index calculation was based upon a classification of a portion of its customers' outstanding loans into five categories based upon risk of loss for commercial loans and overdue status for consumer and residential mortgage loans. The classifications for risk index calculation purposes must have included the largest commercial loans and represent at least 75% of the commercial loan portfolio, and 100% of consumer and residential mortgage loans. Commercial and consumer loans are classified based on risk in categories denominated A, B, B -, C or D, while residential mortgage loans are classified only as A, B or B-. The total exposure of Banco de Chile to each of its customers and the classification of such customer's loans are continuously reviewed by the commercial officers of Banco de Chile and by the risk control division. The allowances required for each category of loans, which were established by the Chilean Superintendency of Banks, were as follows:

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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, 2006)

**1. Summary of Significant Accounting Policies (continued)***(l) Allowance for loan losses (continued)*

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

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

**Individual loan loss allowance**

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

**Voluntary loan loss allowance**

Prior to 2004, Banco de Chile made a provision for voluntary allowances in addition to those required by the rules of the Superintendency of Banks. Such voluntary reserves were established to cover additional risks inherent in the portfolio.

*(m) 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.

*(n) 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, 2004, 2005 and 2006 the consolidated statement of cash flows has been prepared in accordance with Technical Bulletin No.65 of the Chilean Association of Accountants.

*(o) Staff severance indemnities*



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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, 2004, 2005 and 2006, the obligation has been discounted using the real interest rate of 7%, 6% and 6% per annum.

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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, 2006)**

**1. Summary of Significant Accounting Policies (continued)**

*(p) 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.

*(q) 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, 2006 of Ch\$534.43 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.

*(r) 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".

*(s) Reclassifications*

For comparative purposes, certain line items of the 2005 consolidated financial statements have been reclassified according to the new accounting standards for financial investments and derivatives. However, the valuation criteria applied in 2005 have not been changed.

The main lines items reclassified are as follows:

Consolidated Balance Sheet.

Financial investments, based on the Bank's intention and ability to maintain those securities were reclassified in the following categories: Trading securities, Available for sale and Held to maturity.

Financial derivatives were reclassified from Other liabilities to Derivative instruments.

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Investments in mutual funds units were reclassified from Other financial investments to Other assets .

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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, 2006)**

**1. Summary of Significant Accounting Policies (continued)**

*(s) Reclassifications (continued)*

Consolidated Statement of Income.

Gains and losses from derivative instruments have been reclassified to Gains from trading activities, net or Losses from trading activities, as applicable. In prior periods, these gains or losses were reported following the instruments that generate them, in the following line items:

Gains from foreign exchange transactions, net or Losses from foreign exchange transactions, net : forward, currency futures and interest rate swaps accrued interest.

Other operating income : U.F. Chilean pesos forwards.

Gains from trading activities or Losses from trading activities : Fair value adjustments of interest rate swaps. Readjustments generated by transactions linked to foreign currency, were reclassified from Interest revenue and Interest expense to Gains from foreign exchange transactions, net or Losses from foreign exchange transactions, net, as applicable.

Gains or losses generated by investments in mutual funds units were reclassified from Interest revenue to Other operating income.

*(t) 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. 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\$778, which is included in the line item Gains from trading activities.

**3. Cash and Due from Banks**

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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\$207,729 and MCh\$224,534 as of December 31, 2005 and 2006, respectively.

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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, 2006)

**4. Financial Investments***(a) Trading Securities:*

The detail of securities classified as trading is as follows:

	As of December 31,		Weighted Average
	2005	2006	Nominal Rate as of
	MCh\$	MCh\$	December 31, 2006 %
<b>Instruments issued by the Chilean Government and the Central Bank of Chile</b>			
Instruments issued by the Central Bank of Chile	696,140	492,748	4.49%
Other government instruments	20,142	436	3.46
<b>Subtotal</b>	<b>716,282</b>	<b>493,184</b>	<b>4.49</b>
<b>Other Financial Instruments</b>			
Promissory notes for deposits in Chilean banks	179,577	256,633	5.30
Other foreign instruments issued	309,093	241,278	5.49
Bonds from other Chilean companies	100,268	97,712	6.83
Instruments issued by foreign Governments or Central Banks	13,112	54,749	6.76
Mortgage bonds of Chilean banks	34,425	49,938	4.57
Other instruments issued in Chile	1,187	3,878	4.41
Bonds from Chilean banks	13,511		
<b>Subtotal</b>	<b>651,173</b>	<b>704,188</b>	<b>5.63</b>
<b>Total</b>	<b>1,367,455</b>	<b>1,197,372</b>	<b>5.16%</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\$91,901 and MCh\$55,824 as of December 31, 2005 and 2006, respectively. Other Financial Instruments include instruments sold under agreements to repurchase to customers and financial instruments, amounting to MCh\$157,447 and MCh\$217,824 as of December 31, 2005 and 2006, 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, 2006)

**4. Financial Investments (continued)***(b) Investment Securities (continued):**(i) Available for sale*

	As of December 31,		Weighted Average
	2005	2006	Nominal Rate as of
	MCh\$	MCh\$	December 31, 2006 %
<b>Other Financial Instruments:</b>			
Instruments issued by foreign Governments or Central Banks	23,534	40,066	4.45%
Bonds from Chilean companies	1,628		
<b>Total</b>	<b>25,162</b>	<b>40,066</b>	<b>4.45%</b>

*(ii) Held to maturity*

	As of		Weighted Average
	December 31,	2006	Nominal Rate as of
	2005	MCh\$	December 31, 2006 %
<b>Other Financial Instruments:</b>			
Instruments issued by foreign Governments or Central Banks	15,739	16,003	5.09%
<b>Total</b>	<b>15,739</b>	<b>16,003</b>	<b>5.09%</b>

As of December 31, 2005 and 2006, the portfolio of available for sale securities include a net unrealized loss of MCh\$4 and MCh\$9 in 2005 and 2006, respectively, 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.

*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.

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*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, 2006)

**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,	
	2005	2006
	%	%
Financial services	19.22	20.53
Residential mortgage loans	17.99	17.85
Manufacturing	8.90	8.25
Commerce	9.75	10.17
Agriculture, livestock, forestry, agribusiness, fishing	5.48	4.95
Consumer loans	11.63	12.41

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, 2006:

Maturity	As of December 31, 2006		
	Total	Unearned	Net lease

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	Receivable MCh\$	Income MCh\$	Receivable MCh\$
Due within one year	191,144	(25,667)	165,477
Due after 1 year but within 2 years	133,637	(18,542)	115,095
Due after 2 years but within 3 years	94,911	(12,880)	82,031
Due after 3 years but within 4 years	57,680	(9,124)	48,556
Due after 4 years but within 5 years	40,713	(6,669)	34,044
Due after 5 years	111,021	(17,048)	93,973
<b>Total leasing contracts</b>	<b>629,106</b>	<b>(89,930)</b>	<b>539,176</b>

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Chilean pesos as of December 31, 2006)

**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\$6,231 as of December 31, 2006 (MCh\$5,979 as of December 31, 2005), 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:

	2004	2005	2006
	MCh\$	MCh\$	MCh\$
Balance as of January 1,	194,561	162,664	144,272
Price-level restatement (1)	(4,873)	(5,805)	(2,950)
Charge-offs	(104,781)	(68,757)	(60,671)
Provisions established	79,404	57,795	64,836
Provisions released	(1,647)	(1,625)	(508)
<b>Balance as of December 31,</b>	<b>162,664</b>	<b>144,272</b>	<b>144,979</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, 2006.

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

	Years ended December 31,		
	2004	2005	2006
	MCh\$	MCh\$	MCh\$
Provisions established	79,404	57,795	64,836
Provisions released	(1,647)	(1,625)	(508)
Loan loss recoveries	(35,684)	(33,679)	(28,100)
<b>Net charges to income</b>	<b>42,073</b>	<b>22,491</b>	<b>36,228</b>

**8. Bank Premises and Equipment, net**

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

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	As of December 31,	
	2005	2006
	MCh\$	MCh\$
Land and buildings	97,619	99,148
Machinery and equipment	39,369	46,344
Furniture and fixtures	5,295	3,055
Vehicles	852	841
Others	2,306	2,289
<b>Bank premises and equipment, net</b>	<b>145,441</b>	<b>151,677</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

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**9. Investments in other companies**

As of December 31, 2004, 2005 and 2006, 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 Interest 2006 %
	2004		2005		2006		
	Investment MCh\$	Income (Loss) MCh\$	Investment MCh\$	Income (Loss) MCh\$	Investment MCh\$	Income (Loss) MCh\$	
Servipag Ltda.	1,040	161	1,257	216	1,513	256	50.00
Soc. Operadora de Tarjetas de Crédito Nexus S.A.	1,127	182	1,168	186	1,219	237	25.81
Administrador Financiero de Transantiago S.A. (1)			1,297	71	1,197	(95)	20.00
Redbanc S.A.	935	146	931	142	943	153	25.42
Transbank S.A.	915	140	915	141	915	141	17.44
Bolsa de Comercio de Santiago (Stock Exchange)	590	96	597	105	628	148	4.17
Soc. Operadora Cámara Compensación de Pagos de Alto Valor S.A. (2)	292	(18)	287	(6)	345	58	11.52
Centro de Compensación Automatizado S.A. (CCA S.A.)	200	33	217	35	240	40	33.33
Sociedad Interbancaria de Depósito de Valores S.A.	230	36	186	35	188	41	17.60
Artikos Chile S.A. (3)	46	(175)	120	(187)	164	43	50.00
Bolsa de Valores de Chile (Stock Exchange)	138	3	144	7	153	9	5.00
Empresa de Tarjetas Inteligentes S.A.(4)		(143)		(49)			
<b>Total investments in other companies accounted for under the equity method</b>	<b>5,513</b>	<b>461</b>	<b>7,119</b>	<b>696</b>	<b>7,505</b>	<b>1,031</b>	
Other investments carried at cost	212		191		188		
<b>Total investments in other companies</b>	<b>5,725</b>	<b>461</b>	<b>7,310</b>	<b>696</b>	<b>7,693</b>	<b>1,031</b>	

- (1) 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. .
- (2) 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. .

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- (3) 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. .
- (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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**10. Other Assets and Other Liabilities***(a) Other assets*

	As of December 31,	
	2005	2006
	MCh\$	MCh\$
Mutual funds	24,427	99,510
Amounts receivable under spot foreign exchange transaction	78,151	77,628
Credit card charges in process	68,257	63,426
Deferred income tax assets	64,264	54,488
Assets held for leasing	22,568	40,214
Payments from counterparties to be settled	52,294	36,766
Intangibles (software and licenses for trademark use)	14,597	22,655
Deferred fees	9,464	14,220
Transactions in process	6,993	8,313
Notes receivable	11,708	6,600
VAT fiscal credit	5,789	6,030
Recoverable taxes	1,831	4,916
Assets to be securitized		4,860
Accounts receivable for assets received in lieu of payment sold	1,332	2,309
Prepaid expenses	1,715	1,855
Additional consideration paid in the purchase of mortgage bonds	1,799	1,150
Materials and supplies	637	640
Accounts receivable for financial investments sold	2,035	
Other	18,600	18,021
<b>Total other assets</b>	<b>386,461</b>	<b>463,601</b>

*(b) Other liabilities*

	As of December 31,	
	2005	2006
	MCh\$	MCh\$
Accounts payable	86,523	156,151
Amounts payable under spot foreign exchange transaction	52,167	81,406
Payments to counterparties to be settled	48,989	44,604
Notes payable	19,984	25,154
Deferred tax liabilities	22,343	20,750

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Accrued staff vacation expense	10,929	12,233
Transactions in process	2,122	7,882
Unearned interest on leasing transactions	6,816	6,464
Provision for staff severance indemnities and personnel expenses	6,930	6,436
VAT payable	4,324	5,931
Administration and credit card contract provision	3,818	5,500
Deferred fees	4,224	3,769
Allowance of income taxes, net	2,621	
Legal contingencies provision	879	1,386
Other	4,551	6,850
<b>Total other liabilities</b>	<b>277,220</b>	<b>384,516</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, 2006)

**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.

	As of December 31, 2005			As of December 31, 2006		
	Long-term	Short-term	Total	Long-term	Short-term	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Central Bank Credit lines for renegotiation of loans	1,436		1,436	824		824
Mortgage finance bonds	568,191		568,191	477,637		477,637
Bonds	331,522		331,522	554,272		554,272
Subordinated bonds	311,696		311,696	405,942		405,942
Borrowings from domestic financial institutions		92,054	92,054		88,261	88,261
Foreign borrowings	661,107	14,277	675,384	319,173	272,400	591,573
Investments sold under agreements to repurchase		276,435	276,435		306,855	306,855
Other obligations	1,366	33,086	34,452	2,848	23,584	26,432
<b>Total other interest bearing liabilities</b>	<b>1,875,318</b>	<b>415,852</b>	<b>2,291,170</b>	<b>1,760,696</b>	<b>691,100</b>	<b>2,451,796</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 3.00%. The maturities of the outstanding amounts are as follows:

As of  
December 31, 2006  
MCh\$

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Due within 1 year	824
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>824</b>
<b>Total short-term (Other Central Bank borrowings)</b>	
<b>Total Central Bank borrowings</b>	<b>824</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, 2006)****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 4.56% as of December 31, 2006.

The maturities of outstanding mortgage bond amounts as of December 31, 2006 are as follows:

	As of December 31,
	2006
	MCh\$
Due within 1 year	66,944
Due after 1 year but within 2 years	49,487
Due after 2 years but within 3 years	48,606
Due after 3 years but within 4 years	47,341
Due after 4 years but within 5 years	44,838
Due after 5 years	220,421
<b>Total mortgage finance bonds</b>	<b>477,637</b>

*(c) Bonds*

The maturities of outstanding bond amounts as of December 31, 2006 are as follows:

	As of December 31,
	2006
	MCh\$
Due within 1 year	119,694
Due after 1 year but within 2 years	116,688
Due after 2 years but within 3 years	116,687
Due after 3 years but within 4 years	53,318
Due after 4 years but within 5 years	32,989
Due after 5 years	114,896

**Total bonds**

**554,272**

Bonds are linked to the UF Index and carried an average real annual interest rate of 4.06% as of December 31, 2006, with interest and principal payments due semi-annually. The bonds were originally intended to finance loans that had a maturity of greater than one year.

*(d) Subordinated bonds*

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, 2006, the effective real interest rate was 6.77% taking into consideration the discount on issuance.

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**11. Other Interest Bearing Liabilities (continued)**

The bonds are intended to finance loans having a maturity greater than one year. As of December 31, 2006 the outstanding maturities of the bonds, which are considered long-term, are as follows:

*(d) Subordinated bonds (continued)*

	As of December 31, 2006
	MCh\$
Due within 1 year	32,404
Due after 1 year but within 2 years	25,723
Due after 2 years but within 3 years	25,723
Due after 3 years but within 4 years	25,723
Due after 4 years but within 5 years	25,723
Due after 5 years	270,646
<b>Total subordinated bonds</b>	<b>405,942</b>

On June 15, 2006, we issued U.S.\$200,000,000 of 6.25% subordinated notes due 2016. The notes pay interest semi-annually, and were issued pursuant to an exemption from registration under Regulation S and Rule 144A of the United States Securities Act.

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 4.96% and have the following outstanding maturities as of December 31, 2006.

	As of December 31, 2006
	MCh\$
Due within 1 year	
Due after 1 year but within 2 years	

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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>88,261</b>
<b>Total borrowings from domestic financial institutions</b>	<b>88,261</b>

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## BANCO DE CHILE AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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, 2006 are as follows:

	As of
	December 31, 2006
	MCh\$
Due within 1 year	306,746
Due after 1 year but within 2 years	5,393
Due after 2 years but within 3 years	7,034
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>319,173</b>
<b>Total short-term</b>	<b>272,400</b>
<b>Total foreign borrowings</b>	<b>591,573</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 5.85% as of December 31, 2006.

*(g) Other obligations*

	As of	
	December 31, 2005	2006
	MCh\$	MCh\$
Other long-term obligations:		
Obligations with Chilean government	1,366	2,848
<b>Total other long-term obligations</b>	<b>1,366</b>	<b>2,848</b>

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Other short-term obligations	33,086	23,584
<b>Total other obligations</b>	<b>34,452</b>	<b>26,432</b>

As of December 31, 2006, other obligations had the following maturities:

	As of
	December 31, 2006
	MCh\$
Due within 1 year	184
Due after 1 year but within 2 years	376
Due after 2 years but within 3 years	531
Due after 3 years but within 4 years	546
Due after 4 years but within 5 years	379
Due after 5 years	832
<b>Total long-term</b>	<b>2,848</b>
<b>Total short-term</b>	<b>23,584</b>
<b>Total other obligations</b>	<b>26,432</b>



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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, 2006.

	As of December 31, 2006
	MCh\$
Due within 1 year	7,964
Due after 1 year but within 2 years	6,499
Due after 2 years but within 3 years	4,971
Due after 3 years but within 4 years	4,071
Due after 4 years but within 5 years	2,262
Due after 5 years	5,278
<b>Total obligations arising from lease commitments</b>	<b>31,045</b>

The rental expense on the premises was MCh\$7,489, MCh\$8,529 and MCh\$10,100 for the years ended December 31, 2004, 2005 and 2006, 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		Over 3 months/				Assets		Liabilities	
	3 months		Less than 1 year		Over 1 year		2005	2006	2005	2006
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Derivatives held for hedging purposes</b>										
Interest rate swaps						106,886		3,298		
<b>Total derivatives held for hedging purposes</b>						106,886		3,298		

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**Derivatives held for investing purposes**

Currency forwards	1,073,498	1,345,767	1,966,270	1,816,854	964,741	492,535	22,519	43,454	29,211
Interest rate swaps	40,117		483,014		210,042	815,006	4,343	(534)	3,490
Currency and rate swaps			36,692	23,989	105,002	120,247	19,915	18,357	36,705
Call options				4,169	4,620	678,632	426		549
<b>Total derivatives held for investing purposes</b>	<b>1,113,615</b>	<b>1,345,767</b>	<b>2,485,976</b>	<b>1,845,012</b>	<b>1,284,405</b>	<b>2,106,420</b>	<b>47,203</b>	<b>61,277</b>	<b>69,955</b>
<b>Total derivative instruments</b>	<b>1,113,615</b>	<b>1,345,767</b>	<b>2,485,976</b>	<b>1,845,012</b>	<b>1,284,405</b>	<b>2,213,306</b>	<b>50,501</b>	<b>61,277</b>	<b>69,955</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, 2005 and 2006.

	Fair values as of	
	2005	2006
	MCh\$	MCh\$
Contract to purchase and sell foreign exchange	(42,202)	(6,692)
Currency and interest rate swaps and options	(17,823)	(12,762)

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\$14,669 as of December 31, 2006. 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, 2006, are set forth in the following table:

	As of
	December 31,
	2006
	MCh\$
<b>Basic Capital</b>	639,383
3% of total assets net of provisions	(385,856)
Excess over minimum required equity	253,527

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Net capital base as a percentage of the total assets, net of provisions	4.97%
<b>Effective equity</b>	1,010,928
8% of risk-weighted assets	(757,995)
<b>Excess over minimum required equity</b>	252,933
Effective equity as a percentage of the risk-weighted assets (*)	10.67%

(\*) 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 2004, 2005 and 2006 in constant Chilean pesos of December 31, 2006 are as follows:

	Paid during the year ended		
	December 31,		
	2004	2005	2006
	MCh\$	MCh\$	MCh\$
Dividends relating to prior year net income	138,090	155,828	149,730

**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:

	2004		As of December 31, 2005		2006	
	Collateral		Collateral		Collateral	
	Loans	Pledged	Loans	Pledged	Loans	Pledged
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Operating companies	117,206	47,613	113,334	49,388	144,738	69,557
Investment companies	18,006	2,478	8,426	127	10,865	121
Individuals (1)	3,100	2,781	3,746	3,166	3,845	3,596
<b>Total</b>	<b>138,312</b>	<b>52,872</b>	<b>125,506</b>	<b>52,681</b>	<b>159,448</b>	<b>73,274</b>

(1) Includes only debt obligations that are equal to or greater than UF3,000, equivalent to approximately MCh\$55 as of December 31, 2006. The activity in the balances of loans to related parties are as follows:

	2005	2006
	MCh\$	MCh\$
Balance as of January 1,	138,312	125,506
New loans	52,523	74,233
Repayments	(60,523)	(37,709)
Price-level restatement (1)	(4,806)	(2,582)
<b>Balance as of December 31,</b>	<b>125,506</b>	<b>159,448</b>

(1) Reflects the effect of restatement of beginning balances to constant pesos of December 31, 2006.

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**16. Transactions with Related Parties (continued)***(b) Other transactions with related parties*

During the years ended December 31, 2004, 2005 and 2006, 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\$92 as of December 31, 2006.

	Years ended December 31,					
	2004		2005		2006	
	Expense MCh\$	Revenue MCh\$	Expense MCh\$	Revenue MCh\$	Expense MCh\$	Revenue MCh\$
Redbanc S.A.	2,969		3,538		3,870	
Empresa Nacional de Telecomunicaciones S.A.	2,422		2,289		3,345	
Operadora de Tarjetas de Crédito Nexus S.A.	2,185		2,625		3,145	
Entel Telefonía Local S.A.	296		798		1,733	
Sonda S.A.			611		868	
Entel PCS Telecomunicaciones S.A.	231		225		463	
Depósito Central de Valores, Depósitos de Valores S.A.	275		418		440	
Soc. Operadora de la Cámara Com. Pagos Alto Valor S.A.			38		353	
Banchile Cía de Seguros de Vida S.A.	256		263		308	
Bolsa de Comercio de Santiago Bolsa de Valores	90		211		303	
Plaza Oeste S.A.			246		279	
Artikos S.A.	14		121		204	
Asociación de Bancos e Instituciones Financieras	112		108		136	
Plaza El Trébol S.A.			56		96	
Línea Aérea Nacional Chile S.A.		114		114		116
<b>Subtotal</b>	<b>8,850</b>	<b>114</b>	<b>11,547</b>	<b>114</b>	<b>15,543</b>	<b>116</b>
<b>Transactions between 1,000 and 5,000 UF:</b>						
Services expenses	195		148		273	
Rental income.			127		149	
<b>Subtotal</b>	<b>195</b>		<b>275</b>		<b>422</b>	
<b>Total</b>	<b>9,045</b>	<b>114</b>	<b>11,822</b>	<b>114</b>	<b>15,965</b>	<b>116</b>

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, 2004, 2005 and 2006 are summarized as follows:

	Years ended December 31,					
	2004		2005		2006	
	Income MCh\$	Expenses MCh\$	Income MCh\$	Expenses MCh\$	Income MCh\$	Expenses MCh\$
<b>Fees and income from services</b>						
Mutual funds management	21,627	(1,936)	26,007	(2,334)	27,307	(2,341)
Sight accounts and ATMs	20,935	(9,794)	22,875	(9,495)	24,592	(10,108)
Insurance	15,293	(182)	20,579	(160)	24,429	(201)
Checking accounts and overdrafts	25,787		24,212		24,072	
Credit cards	16,823	(5,028)	17,921	(6,279)	21,430	(7,867)
Stock brokerage	13,601	(820)	15,448	(32)	11,127	(626)
Cash management services	8,559	(10)	9,795	(235)	10,865	(94)
Collection of over-due loans	9,064		8,838		9,883	
Credit lines	7,137		7,425		8,078	
Credit	5,730		9,764		4,567	
Foreign trade and currency exchange	3,606		3,407		3,863	
Letters of credit, guarantees, collaterals and other contingent loans	5,445		4,848		3,839	
Income and revenue from assets received in lieu of payment	5,808	(1,710)	5,178	(1,586)	3,740	(1,408)
Financial advisory services	2,678		942		2,844	
Custody and trust services	1,480		1,799		2,076	
Collection services	3,767		2,580		1,944	
Leasing	1,719	(91)	1,623	(313)	1,467	(199)
Factoring	670	(53)	631	(8)	869	(7)
Fees from sales force		(11,840)		(15,331)		(22,253)
Teller services expenses		(3,584)		(4,043)		(4,606)
Cobranding		(3,843)		(5,939)		(6,977)
Other	3,972	(1,562)	3,806	(1,746)	5,455	(2,219)
<b>Total</b>	<b>173,701</b>	<b>(40,453)</b>	<b>187,678</b>	<b>(47,501)</b>	<b>192,447</b>	<b>(58,906)</b>
<b>Non-operating income and expenses</b>						
Gains on sales of assets received in lieu of payment	891		4,478		9,541	
Prior year tax differences	5				3,343	
Rental income	2,492		2,402		2,396	
Gains from sale of shares					447	
Recoveries of expenses	617		301		258	
Foreign trade income	154		134		110	
Income from sale of fixed assets	314		125		71	
Dividends received	59		93		55	

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Leasing income	80		57		6
Indemnity of sinesters	1		5		
Charge-offs assets received in lieu of payment	(8,694)		(11,053)		(9,832)
Charge-offs	(1,404)		(1,311)		(1,360)
Write-offs for frauds	(1,124)		(557)		(558)
Legal contingencies provision	(193)		(20)		(537)
Expenses on charge-offs for leasing	(256)		(367)		(199)
Advertising expenses	(56)		(63)		(70)
Charge-offs and provisions related to fixed assets	(46)		(25)		(17)
Provision for recovered leased assets	(1,538)		(1,084)		(15)
Reversal of adjustments and interest from previous years	(131)		(49)		(13)
Tax expenses from previous years	(2,377)				
Provision and charge-offs other assets	(432)				
Other	491	(546)	429	(552)	490 (1,241)
<b>Total</b>	<b>5,104</b>	<b>(16,797)</b>	<b>8,024</b>	<b>(15,081)</b>	<b>16,717 (13,842)</b>

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**18. Board of Directors Compensation**

As agreed at the Shareholders Meeting, during 2005 and 2006 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	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Fernando Cañas Berkowitz	295	315	39	42	173	234			507	591
Andrónico Luksic Craig	129	131	16	8					145	139
Jorge Awad Mehech	43	44	26	22	94	82			163	148
Jacob Ergas Ergas	43	44	24	15	68	56			135	115
Thomas Fürst Freiwirth	43	44	26	19	58	67			127	130
Guillermo Luksic Craig	43	44	15	9	5				63	53
Rodrigo Manubens Moltedo	43	44	22	19	91	93	415	8	571	164
Gonzalo Menéndez Duque	43	44	29	22	132	118			204	184
Máximo Pacheco Matte	43	44	28	17	3	3			74	64
Francisco Pérez Mackenna	43	44	25	19	57	54			125	117
Segismundo Schulin-Zeuthen Serrano	61	44	34	19	90	40			185	103
Edmundo Eluchans Urenda	43	7	23	3	34	4			100	14
Jorge Ergas Heymann	43	43	21	20	39	38			103	101
Jorge Díaz Vial	3	36	2	17	2	35			7	88
Máximo Silva Bafalluy	4		6		18				28	
Other subsidiaries directors					93	115			93	115
<b>Total</b>	<b>922</b>	<b>928</b>	<b>336</b>	<b>251</b>	<b>957</b>	<b>939</b>	<b>415</b>	<b>8</b>	<b>2,630</b>	<b>2,126</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,		
	2004 MCh\$	2005 MCh\$	2006 MCh\$
Loan portfolio previously charged-off	29,997	33,174	28,063
Loans reacquired from Central Bank	5,687	505	37

<b>Total</b>	<b>35,684</b>	<b>33,679</b>	<b>28,100</b>
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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, 2005 and 2006 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, 2005			As of December 31, 2006		
	Payable in		Total	Payable in		Total
	Foreign	Payable in Chilean		Foreign	Payable in Chilean	
	Currency MCh\$	Pesos MCh\$	MCh\$	Currency MCh\$	Pesos MCh\$	MCh\$
<b>ASSETS</b>						
Cash and due from banks	361,001		361,001	820,972		820,972
Loans	759,346	15,701	775,047	890,800	10,691	901,491
Contingent loans	295,018		295,018	407,535		407,535
Trading securities	491,992	12,195	504,187	376,208	9,273	385,481
Held to maturity and available for sale	40,901		40,901	56,069		56,069
Leasing contracts		40,945	40,945		52,194	52,194
Other assets	421,818		421,818	100,050		100,050
<b>Total assets</b>	<b>2,370,076</b>	<b>68,841</b>	<b>2,438,917</b>	<b>2,651,634</b>	<b>72,158</b>	<b>2,723,792</b>
<b>LIABILITIES</b>						
Deposits	1,170,166	281	1,170,447	1,165,879	209	1,166,088
Contingent liabilities	296,235		296,235	409,278		409,278
Borrowings from domestic financial institutions	92,047		92,047	125,369		125,369
Foreign borrowings	675,235		675,235	591,503		591,503
Other liabilities	177,855	92	177,947	414,389	240	414,629
<b>Total liabilities</b>	<b>2,411,538</b>	<b>373</b>	<b>2,411,911</b>	<b>2,706,418</b>	<b>449</b>	<b>2,706,867</b>
<b>NET (LIABILITIES) ASSETS</b>	<b>(41,462)</b>	<b>68,468</b>	<b>27,006</b>	<b>(54,784)</b>	<b>71,709</b>	<b>16,925</b>

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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 December 31, 2005 (1) MCh\$	2006 Deferred taxes MCh\$	Balance as of December 31, 2006 MCh\$
<b>Deferred tax assets</b>			
Allowances for loan losses	25,634	207	25,841
Obligations with repurchase agreements	11,829	(2,908)	8,921
Leasing equipment	6,808	(3,464)	3,344
Assets at market value	1,202	(363)	839
Personnel provisions	2,170	166	2,336
Staff vacations	1,813	214	2,027
Accruals interest and readjustments from past due loans	2,196	(734)	1,462
Staff severance indemnities	951	8	959
Charge-offs from financial investment	66	(66)	
Other adjustments	10,273	(1,514)	8,759
<b>Total</b>	<b>62,942</b>	<b>(8,454)</b>	<b>54,488</b>
<b>Deferred tax liabilities</b>			
Investments with repurchase agreements	10,842	(1,931)	8,911
Depreciation and price-level restatement of fixed assets	6,225	(235)	5,990
Transitory assets	2,292	866	3,158
Other adjustments	2,524	167	2,691
<b>Total</b>	<b>21,883</b>	<b>(1,133)</b>	<b>20,750</b>

- (1) For presentation purposes, deferred income tax balances as of December 31, 2005 are presented on a historical basis. For comparison purposes, price-level restated amounts for 2005 correspond to MCh\$64,264 for net deferred tax assets and MCh\$22,343 for net deferred tax liabilities.

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**21. Income Taxes (continued)**

Income taxes as presented in the Consolidated Statements of Income for the years ended December 31, 2004, 2005 and 2006 are summarized as follows:

	Years ended December 31,		
	2004	2005	2006
	MCh\$	MCh\$	MCh\$
Current income tax provision	(21,388)	(15,396)	(15,872)
Amortization of complementary accounts	(494)		
Deferred tax effect for the year	3,281	(4,892)	(7,321)
Non-deductible expenses Art. 21	(813)	(1,552)	(903)
<b>Income taxes expense</b>	<b>(19,414)</b>	<b>(21,840)</b>	<b>(24,096)</b>

**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\$879 and MCh\$1,386 as of December 31, 2005 and 2006, 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\$1,258,375 and MCh\$1,733,916 and the amounts of subscribed leasing contracts are MCh\$62,726 and MCh\$95,655 as of December 31, 2005 and 2006, 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. The activities contained in the action plan, which was

approved by the regulatory authorities, included specific time periods for their execution.

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**22. Commitments and contingencies (continued)***(c) Obligations regarding the New York and Miami Branches (continued)*

Implementation of activities related to re-documentation of client folders and to certain specific activities of the internal controls program of the branch, has required a period of time superior to that which was anticipated in the time estimates of said plan. Both activities have had advanced significantly during year 2006 and it is likely that they will be completed during fiscal year 2007.

*(d) Contingency for Lawsuit in the Courts of New York*

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:

	As of December 31, 2006	
	2005 MCh\$	MCh\$
Securities held in safe custody	3,533,471	3,677,291
Amounts to be collected on behalf of domestic third parties	174,140	255,645
Amounts to be collected on behalf of foreign third parties	257,969	209,206
<b>Total fiduciary activities</b>	<b>3,965,580</b>	<b>4,142,142</b>

**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.

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**24. Concentrations of Credit Risk (continued)***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, 2005 and 2006 are as follows:

Bank	Counterparty Risk As of December 31,	
	2005 MCh\$	2006 MCh\$
Banco del Estado de Chile	6,521	40,467
Banco Santander- Chile	15,607	16,179
Corpbanca	11,459	14,177
BBVA Banco Bhif	12,407	8,254
Banco de Crédito e Inversiones	6,071	6,691
BankBoston N.A.	2,337	4,083
Banco Bice	2,828	3,611
Banco Falabella	3,589	3,171
Banco Ripley	1,862	2,891
ABN Amro Bank (Chile)	306	2,585
Banco Security	8,398	2,445
Scotiabank Sud Americano	993	1,407
Banco del Desarrollo		765
Citibank N.A.	84	652
HSBC Bank Chile		637
JP Morgan Chase Bank	701	293
Deutsche Bank (Chile)		254
Banco Paris		211
Banco Monex		137
Banco Internacional	23	131
Banco Penta	84	

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.

**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, 2004, 2005 and 2006, Banco de Chile sold loans totaling MCh\$68,127, MCh\$20,232 and MCh\$28,265, 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, 2005 and 2006, Banco de Chile purchased loans amounting to MCh\$61,470 and MCh\$161,997 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.

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The aggregate gains on sales of loans were MCh\$10,497, MCh\$2,452 and MCh\$772 for the years ended December 31, 2004, 2005 and 2006, respectively.

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**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, 2006.

	As of December 31, 2006				Total 2006 MCh\$	Total 2005 MCh\$
	Due within 1 year MCh\$	Due after 1 year but within 3 years MCh\$	Due after 3 years but within 6 years MCh\$	Due after 6 years MCh\$		
<b>ASSETS</b>						
Loans (1)	3,984,666	1,591,890	978,382	2,048,764	8,603,702	7,514,069
Securities (2)	1,253,441				1,253,441	1,408,356
Derivative instruments	23,506	18,327	4,217	4,451	50,501	
<b>Total</b>	<b>5,261,613</b>	<b>1,610,217</b>	<b>982,599</b>	<b>2,053,215</b>	<b>9,907,644</b>	<b>8,922,425</b>
<b>LIABILITIES</b>						
Deposit and other obligations (3)	5,782,020	173,940			5,955,960	4,568,900
Mortgage finance bonds	66,944	98,093	133,106	179,494	477,637	568,191
Bonds	152,098	284,821	175,523	347,772	960,214	643,218
Chilean Central Bank borrowings:						
Central Bank credit lines for renegotiations of loans	824				824	1,436
Borrowings from domestic financial institutions	88,261				88,261	92,054
Foreign borrowings	579,146	12,427			591,573	675,384
Other obligations	23,768	907	1,224	533	26,432	34,452
Derivative instruments	29,787	36,936	2,078	1,154	69,955	61,277
<b>Total</b>	<b>6,722,848</b>	<b>607,124</b>	<b>311,931</b>	<b>528,953</b>	<b>8,170,856</b>	<b>6,644,912</b>

(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\$4 and MCh\$9 for the years ended December 31, 2005 and 2006 respectively. In accordance with Superintendency of Banks trading investments are classified as due within 1 year.

(3) Excludes demand deposit accounts, saving accounts, investments sold under agreements to repurchase and contingent liabilities.

**27. Subsequent Events**

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At the Extraordinary Shareholders Meeting of the subsidiary Banchile Factoring S.A. held on January 9, 2007, the shareholders agreed to increase this subsidiary's paid-in capital by MCh\$18,379. This increase was paid in full by Banco de Chile and therefore the Bank now has ownership of 99.75% in the aforementioned subsidiary.

Management is not aware of any other significant subsequent events occurring between December 31, 2006 and the date of issuance of these consolidated financial statements which affect or may affect the Bank's consolidated financial statements.

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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**

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**28. 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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**28. 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.

***Background***

During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability requiring that the Chilean Central Bank and the Chilean government provide assistance to most Chilean private sector banks, including Banco de Chile. During this period, Banco de Chile experienced significant financial difficulties. In 1985 and 1986, Banco de Chile increased its capital and sold shares representing 88% of its 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, Banco de Chile sold certain of its 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.

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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, Banco de Chile repurchased its portfolio of non-performing loans from the Central Bank and assumed the Central Bank's subordinated debt relating to our nonperforming loans.

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

*(a) Push Down Accounting and Purchase Accounting (continued)*

In November 1996, pursuant to Law No. 19,396, which established a new treatment for subordinated debts in the Chilean banking system, the former Banco de Chile's shareholders approved a reorganization by which the former Banco de Chile was converted to a holding company named SM-Chile. In turn, SM-Chile created a new wholly owned banking subsidiary named Banco de Chile (the Bank) to which it contributed all of its assets and liabilities other than the Central Bank subordinated debt. SM-Chile then created a second wholly owned subsidiary, Sociedad Administradora de la Obligación Subordinada SAOS S.A., (SAOS). Pursuant to a prior agreement with the Central Bank, SAOS assumed a new repayment obligation in favor of the Central Bank that replaced the Central Bank subordinated debt in its entirety. In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile, a holding company that beneficially owns SAOS and Banco de Chile, 63.6% of Banco de Chile shares as collateral for this indebtedness.

Subsequently, as a result of Banco de Chile merger with Banco de A. Edwards, the percentage of Banco de Chile's shares held by SAOS decreased to 42.0%. As a result of the share dividend paid in May 2006, the percentage further decreased to 41.4%.

**Business purpose of the reorganization**

The business purpose of this reorganization transaction, including the formation of the holding company SAOS, was to structure the repayment of the subordinated debt that had neither a fixed term nor a repayment schedule to the Chilean Central Bank. Although Banco de Chile utilized a reorganization alternative, the law provided a range of options for the banks with subordinated debt with the Chilean Central Bank to modify the payment conditions for the subordinated obligations; depending on whether or not under the original conditions they were able to serve such debt within a 40 year-term. Those banks that were unable to repay their subordinated obligation within this period, were permitted to agree with Chilean Central Bank, to either repay the subordinated obligation in 40 fixed, annual, consecutive and equal installments, or to adopt a scheme for bidding shares, plus the transfer of shares in settlement to Banco Central de Chile.

**Nature of the Variable Interest in SAOS**

Banco de Chile believes that SAOS is a variable interest entity (VIE) under FIN46(R) and its parent company SM-Chile has a variable interest in SAOS. In performing its analysis, the Bank identified the Chilean Central Bank, and the consolidated group SM-Chile, which includes Banco de Chile, as having variable interests in SAOS as a result of being debt and equity holders, respectively, which will absorb portions of SAOS expected losses and residual returns. Banco de Chile does not have an obligation to absorb any portions of the expected losses nor will it receive portions of SAOS expected residual returns.

**Terms of the agreement between Banco de Chile and SAOS and the payments of dividends**

The Central Bank indebtedness, for which SAOS is solely responsible and for which there is no recourse to Banco de Chile nor 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 Banco de Chile's shares as collateral for such debt. The Central Bank indebtedness bears interest at a rate of 5.0% per year and it is denominated in UF. Dividends received from Banco de Chile are the sole source of SAOS revenue, which must be applied to repay this indebtedness. According to Chilean Corporations Law 18.046 banks must generally distribute a cash dividend in an amount equal to at least 30% of its net income each year, as



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

*(a) Push Down Accounting and Purchase Accounting (continued)*

determined in accordance with Chilean GAAP, unless and except to the extent the Bank has unabsorbed prior year losses.<sup>1</sup>

Under SAOS agreement with the Central Bank, Banco de Chile has no particular obligation to distribute dividends to its shareholders. If the Bank decides to retain and capitalize all or part of its annual net income in order to finance future growth, and to distribute stock dividends to its shareholders, the Central Bank may require Banco de Chile to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If Banco de Chile distributes stock dividends and the Central Bank does not require it 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.

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 Banco de Chile's paid-in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of Banco de Chile's stock owned by SAOS to the public in order to pay the entire accumulated deficit amount.

**Decision making function in SAOS**

Pursuant to the law under which it was established, the only function that SAOS has is to hold the subordinated debt and the ownership interest in Banco de Chile. As such no decision making is necessary as it functions on an autopilot mechanism. Consequently, no fees other than minor costs related to legal, accounting and other compliance functions are paid related to the decision making function.

**Investment at risk in SAOS**

Although Banco de Chile has no investment at risk in SAOS, SM-Chile S.A., its parent company has investment at risk in SAOS equity, as it is the sole owner of the common stock of SAOS. As defined in paragraph 5(a) of FIN 46(R), there is insufficient investment at risk to permit SAOS to finance its activities without additional subordinated financial support due to SM-Chile having had negative equity under US GAAP at the time of the reorganization. Under US GAAP the reorganization pursuant to Law No. 19,396 would have been accounted for at the book values of the underlying assets and liabilities.

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<sup>1</sup> Law N° 20,109 enacted June 24, 2006 amended Article 56 of the General Banking Law. Prior to such amendment, banks were 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 shares so determined.

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

*(a) Push Down Accounting and Purchase Accounting (continued)*

**Distribution of voting rights and control among the parties involved**

As of the date of these financial statements, the organizational and ownership chart is as follows:

**Related parties**

For purposes of the analysis under FIN 46(R) the Bank considered variable interests in SAOS held by its related parties at the time that SAOS was formed. For purposes of this Interpretation, the term *related parties* included only SM-Chile as there were no other parties identified under FASB Statement No. 57, *Related Party Disclosures*, or other parties that were acting as de facto agents or de facto principals of the variable interest holder.

Banco de Chile believes that the party most closely associated with SAOS, by virtue of its involvement with the reorganization with the subordinated debt is the Chilean Central Bank; and notwithstanding that Banco de Chile does not have a variable interest in SAOS, as it forms part of the consolidated group SM-Chile, in accordance with FIN 46(R) Banco de Chile has performed a comprehensive qualitative and quantitative analysis of the expected losses of the VIE SAOS at the time of the reorganization. Based on the allocation of SAOS' expected losses and residual returns to its variable interest holders, the Bank has concluded that substantially all of the expected losses and rewards attributable to SAOS will be absorbed by SM-Chile.

As a result of the analysis performed the Bank concluded, under the provisions of FIN46(R), that SAOS should not be consolidated by the Bank as SM-Chile is the primary beneficiary.

**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, 2006)****28. 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:

	<b>MCh\$</b>
Net book value of Banco de A. Edwards	131,807
Incremental fair value of identified intangible assets (1)(2)	34,108
Fair value increment of identified net assets acquired	(49,183)
Fair value of Banco de A. Edwards	116,732
Purchase price	
Market value of Banco de Chile shares issued	(320,047)
Direct costs of acquisition	(1,286)
Goodwill	(204,601)

(1)

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Core deposit intangibles resulting from the acquisition amounted to MCh\$30,374 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\$3,734 and is being amortized over 10 years.

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**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(b) Acquisition of Banco de A. Edwards (continued)*

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

	As of January 1, 2002 MCh\$
Cash and due from banks	134,311
Financial investments	198,448
Loans, net	1,150,888
Intangibles	34,108
Other	92,183
<b>Total assets acquired</b>	<b>1,609,938</b>
Deposits	912,834
Other interest bearing liabilities	500,814
Other liabilities	79,558
<b>Total liabilities assumed</b>	<b>1,493,206</b>
<b>Net assets acquired</b>	<b>116,732</b>

Of the MCh\$34,108 of acquired intangible assets, MCh\$30,374 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\$3,734 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 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, 2006. 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 (n) to this note, respectively, were MCh\$391,942 MCh\$204,601 and MCh\$2,030, respectively.





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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	352,378
Retail Market	166,310
International	43,437
Treasury	11,552
Subsidiaries	24,896
<b>Total goodwill</b>	<b>598,573</b>

*(d) Deferred Income taxes*

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

These complementary assets and liabilities are to be amortized over the estimated period of reversal of the temporary differences that generate the future income tax asset or liability. Such period ended as of December 31, 2004.

Under Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes*, income taxes are recognized using the liability method in a manner similar to Chilean GAAP, except for the transitional provisions allowed by Chilean GAAP as described above.

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

*(d) Deferred Income taxes (continued)*

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) Repurchase agreements*

The Bank enters into repurchase agreements as a source of financing. In this regard, up to December 31, 2005 under Chilean GAAP the Bank's investments that have been sold subject to repurchase agreements were reclassified from their investment category to investment collateral under agreements to repurchase. Under U.S. GAAP, no such reclassification is made since, in substance, the investment securities serve only as collateral on the borrowing. Beginning January 1, 2006 the bank no longer reclassifies these investments to the investment collateral under agreements to repurchase category; therefore, no presentation differences arise for the current period, that require reclassifications for purposes of the Article 9 consolidated balance sheets included in paragraph (s) below.

*(g) Interest income recognition on non-accrual loans*

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

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

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

*(h) 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\$739,109 and MCh\$988,359 as of December 31, 2005 and 2006, respectively. This reclassification is included in the Article 9 consolidated financial statements in paragraph (s) below.



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

*(h) Contingent assets and liabilities (continued)*

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.

*(i) 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 (1).

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.

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.

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Chilean pesos as of December 31, 2006)

**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(i) Allowance for loan losses (continued)*

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:

	As of December 31,	
	2005	2006
	MCh\$	MCh\$
U.S. GAAP loan loss reserve	105,133	121,544
Less: Chilean GAAP loan loss allowance as required by the Superintendency of Banks	(144,272)	(144,979)
<b>U.S. GAAP adjustment</b>	<b>(39,139)</b>	<b>(23,435)</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, 2004, 2005 and 2006 the recorded investment in loans for which impairment had been recognized in accordance with SFAS No.114 totaled MCh\$474,263, MCh\$387,203 and MCh\$361,861, respectively, with a corresponding valuation allowance of MCh\$99,340 MCh\$72,769 and MCh\$67,060, respectively. For the years ended December 31, 2004, 2005 and 2006 the average recorded investment in impaired loans was MCh\$533,748, MCh\$417,877 and MCh\$365,492, respectively. For the years ended December 31, 2004, 2005 and 2006, the Bank recognized interest on impaired loans MCh\$41,254, MCh\$45,048 and MCh\$27,210. 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 (g) above. As of December 31, 2005 and 2006, the Bank had made provisions against all loans which it considered to be impaired.

## 3) Loan loss recoveries

Under U.S. GAAP recoveries of loans previously charged-off are 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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**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(i) 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.

	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
Allowance for loan losses in accordance with U.S. GAAP, as of January 1	163,151	122,519	105,133
Price-level restatement (1)	(4,873)	(5,805)	(2,950)
Charge-offs	(104,781)	(68,757)	(60,671)
Loan loss recoveries	35,684	33,679	28,100
Allowances for loan losses established	34,985	25,122	52,440
Allowances for loan losses released	(1,647)	(1,625)	(508)
<b>Balances as of December 31,</b>	<b>122,519</b>	<b>105,133</b>	<b>121,544</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, 2006.

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

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.

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

*(i) 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, 2004, 2005, and 2006, Banco de Chile purchased non-impaired loans amounting to MCh\$ 5,379, MCh\$61,470 and MCh\$ 161,997.

*(j) Investment securities*

Under Chilean GAAP, until December 31, 2005 investment securities 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.

Investment securities 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.

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.



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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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**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(j) Investment securities (continued)*

Under Chilean GAAP, securities 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 investments are stated at amortized cost and analyzed for impairment on a periodic basis.

Investment securities maintained by the Bank's subsidiaries are carried at the lower of price-level restated cost or market value and are classified as trading for U.S. GAAP purposes.

(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 investment securities. See Note 1(f) for further details on Chilean GAAP accounting rules on investment securities.

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. Gross gains and losses realized on the sale of available-for-sale securities for the year ended December 31, 2004, 2005 and 2006 are as follows:

	Years ended December 31,		
	2004 MCh\$	2005 MCh\$	2006 MCh\$
Proceeds on sale of investments resulting in gains	1,527		
Realized gains	28		
Proceeds on sale of investments resulting in losses			
Realized losses			

The carrying value and market value of securities available-for-sale as of December 31, 2005 and 2006 are as follows:

Carrying Value MCh\$	2005			Years ended December 31,			2006	
	Gross Unrealized	Gross Unrealized	Estimated Fair	Carrying Value MCh\$	Gross Unrealized	Gross Unrealized	Estimated Fair	
	Gains MCh\$	Losses MCh\$	Value MCh\$				Value MCh\$	

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					Gains MCh\$	Losses (*) MCh\$
<b>Available-for-sale Instruments:</b>						
U.S. Government debt securities	23,533	1	23,534	40,075		(9)
Chilean private sector debt securities	1,624	4	1,628			
<b>Total</b>	<b>25,157</b>	<b>5</b>	<b>25,162</b>	<b>40,075</b>		<b>(9)</b>

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**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(j) Investment securities (continued)*

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

	As of December 31, 2006		Total MCh\$
	After one year	After five years	
	Within one year MCh\$	but within five but within 10 years MCh\$	
<b>Available-for-sale Instruments:</b>			
U.S. Government debt securities	40,066		40,066
<b>Estimated fair value</b>	<b>40,066</b>		<b>40,066</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 investment, which may be maturity, the Bank does not consider these investments to be other than temporary impaired as of December 31, 2006.

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

	Years ended December 31,					
	2005			2006		
	Amortized Cost MCh\$	Unrealized Losses MCh\$	Estimated Fair Value MCh\$	Amortized Cost MCh\$	Unrealized Losses MCh\$	Estimated Fair Value MCh\$
<b>Held-to-maturity Instruments:</b>						
U.S. Government debt securities	15,740	(1)	15,739	16,003		16,003
<b>Total</b>	<b>15,740</b>	<b>(1)</b>	<b>15,739</b>	<b>16,003</b>		<b>16,003</b>

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

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	As of December 31, 2006			Total MCh\$
	Within one year MCh\$	After one year but within five years MCh\$	After five years MCh\$	
<b>Held-to-maturity Instruments:</b>				
U.S. Government debt securities	16,003			16,003
<b>Estimated fair value</b>	<b>16,003</b>			<b>16,003</b>

(3) Under U.S. GAAP, the Bank is required to disclose the amounts of unrealized holding gains and losses included in income on securities classified as trading. For the years ended December 31, 2004 and 2005 the Bank recognized in income unrealized holding losses of MCh\$759 and MCh\$3,319 respectively, and December 31, 2006 recognized in income unrealized holding gains of MCh\$4,142 on these securities.

The Bank evaluates all securities 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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**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)**

*(k) 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, 2004 and 2005 were MCh\$21,226 and MCh\$19,493 respectively, and the gains recognized in income associated with these contracts for the year ended December 31, 2006 was MCh\$25,202.

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

*(k) 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 issue 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.

During the year ended December 31, 2006, Banco de Chile recognized in the line item *Gains from trading activities* a net gain of MCh\$ 841 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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**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)**

*(l) 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\$55,356 and MCh\$58,574 as of December 31, 2005 and 2006, respectively, under U.S. GAAP. The effects of these adjustments on the shareholders' equity of the Bank are included in paragraph (q) below.

*(m) 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.

*(n) 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\$15,085. Under Chilean GAAP, the Bank recorded goodwill in the amount of MCh\$1,326 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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**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)**

*(o) 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 corresponding liability is calculated by discounting the benefit accrued using real interest rates, as described in Note 1(o), 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.

*(p) 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.

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**28. 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,			
	2004 MCh\$	2005 MCh\$	2006 MCh\$	2006 ThUS\$
<b>Net income in accordance with Chilean GAAP</b>	<b>161,443</b>	<b>184,519</b>	<b>195,248</b>	<b>365,339</b>
<b>U.S. GAAP adjustments:</b>				
Push Down accounting (Note 28(a))				
Fair value of intangibles	(12,809)	(10,679)	(13,371)	(25,019)
Fair value of loans	(1,589)	(634)	(993)	(1,858)
Fair value of premises	(240)	(303)	(238)	(445)
Fair value of other	(79)	(354)	221	414
Acquisition of Banco Edwards (Note 28(b))				
Fair value of intangibles	(4,023)	(3,319)	(2,637)	(4,934)
Fair value of loans	846	683	548	1,025
Fair value of other interest bearing liabilities	4,574	4,335	4,159	7,782
Fair value of deposits	(27)			
Fair value of premises	(9)	(9)	(9)	(17)
Fair value of other	87	83	79	148
Investments in other companies (Note 28 (e))	28	88	(104)	(195)
Deferred income taxes (Note 28 (d))	507			
Allowance for loan losses (Note 28 (i))	8,735	(1,006)	(15,704)	(29,385)
Derivatives (Note 28 (k))	(1,270)	(4,988)	(404)	(756)
Held-to-Maturity investments (Note 28 (j))	4	49	69	129
Assets received in lieu of payment (Note 28 (m))	1,082	2,891	1,640	3,069
Staff severance indemnities (Note 28(o))	204	(1,256)	(436)	(816)
Deferred tax effect of the above U.S. GAAP adjustments (Note 28 (d))	(2,067)	2,467	4,768	8,922
Accumulated deficit development period (Note 28 (p))		(192)		
<b>Net income in accordance with U.S. GAAP</b>	<b>155,397</b>	<b>172,375</b>	<b>172,836</b>	<b>323,403</b>
<b>Other comprehensive income, net of tax (Note 28(u))</b>	<b>(2,582)</b>	<b>(3,377)</b>	<b>314</b>	<b>587</b>
Unrealized holding gains (losses) on available-for-sale securities, net of tax	(201)	(80)	(11)	(21)
Adjustment for translation differences	(2,381)	(3,297)	325	608
<b>Comprehensive income in accordance with U.S. GAAP</b>	<b>152,815</b>	<b>168,998</b>	<b>173,150</b>	<b>323,990</b>

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**28. 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,		
	2005 MCh\$	2006 MCh\$	2006 ThUS\$
<b>Shareholders' Equity in accordance with Chilean GAAP</b>	<b>791,384</b>	<b>834,631</b>	<b>1,561,722</b>
<b>U.S. GAAP adjustments:</b>			
Push Down accounting (Note 28(a))			
Goodwill	412,297	412,297	771,471
Goodwill accumulated amortization (Note 28(c))	(20,355)	(20,355)	(38,087)
Fair value of intangibles	187,775	187,775	351,356
Amortization of fair value of intangibles	(68,274)	(81,645)	(152,770)
Fair value of loans	993		
Fair value of premises	12,008	12,008	22,469
Amortization of fair value of premise	(1,209)	(1,447)	(2,708)
Fair value of other	(221)		
Acquisition of Banco Edwards (Note 28 (b))			
Goodwill	204,601	204,601	382,840
Fair value of intangibles	34,108	34,108	63,821
Amortization of fair value of intangibles	(18,872)	(21,509)	(40,247)
Fair value of loans	(4,039)	(3,491)	(6,532)
Fair value of other interest bearing liabilities	(32,247)	(28,088)	(52,557)
Fair value of premises	93	93	174
Amortization of fair value of premises	(38)	(47)	(88)
Fair value of other	(615)	(536)	(1,003)
Investments in other companies (Note 28 (e))	659	555	1,038
Allowance for loan losses (Note 28 (i))	39,139	23,435	43,850
Derivatives (Note 28 (k))	1,440	66	123
Held-to-Maturity investments (Note 28 (j))	50	119	223
Assets received in lieu of payment (Note 28 (m))	5,053	6,693	12,524
Minimum Dividend (Note 28 (l))	(55,356)	(58,574)	(109,601)
Goodwill - Leasing Andino Acquisition (Note 28 (n))	2,030	2,030	3,798
Staff severance indemnities (Note 28 (o))	(5,132)	(5,568)	(10,419)
Deferred tax effect of the above U.S. GAAP adjustments (Note 28 (d))	(25,501)	(20,733)	(38,794)
<b>Shareholders' Equity in accordance with U.S. GAAP</b>	<b>1,459,771</b>	<b>1,476,418</b>	<b>2,762,603</b>



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**28. 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, 2005 and 2006:

	Years ended December 31,		
	2005	2006	2006
	MCh\$	MCh\$	ThUS\$
Balance as of January 1,	1,400,759	1,459,771	2,731,454
Dividends paid	(161,910)	(153,285)	(286,819)
Mandatory dividends, previous date	48,433	55,356	103,579
Mandatory dividends, closing date	(55,356)	(58,574)	(109,601)
Unrealized gains on Available-for-sale investments, net of taxes	(80)	(11)	(21)
Placement of shares	58,847		
Cumulative translation adjustment	(3,297)	325	608
Net income in accordance with U.S. GAAP	172,375	172,836	323,403
<b>Balance as of December 31,</b>	<b>1,459,771</b>	<b>1,476,418</b>	<b>2,762,603</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,		
	2004	2005	2006
	Ch\$	Ch\$	Ch\$
<b>Chilean GAAP (1)</b>			
Earnings per share	2.41	2.75	2.84
Weighted average number of total shares outstanding (in millions)	66,932.70	67,091.30	68,821.29
<b>U.S. GAAP (1)</b>			
Earnings per share	2.32	2.57	2.51
Weighted average number of total shares outstanding (in millions)	66,932.70	67,091.30	68,821.29

- (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, 2006)**

**28. 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 significantly from the format required by the Securities and Exchange Commission under Rules 210.9 to 210.9-07 of Regulation S-X ( Article 9 ). The following financial statements are presented in constant Chilean pesos of December 31, 2006 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, 2004, 2005 and 2006 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
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 28(q).

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- (1) In accordance with regulations issued by the Superintendency of Banks, Chilean banks include under the caption "Cash and due from banks" amounts related to checks from other banks that have been deposited in their clients' checking accounts that are pending 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, 2006)

**28. 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, 2004, 2005 and 2006 have been prepared in accordance with U.S. GAAP to disclose the Bank's consolidated income statement in accordance with the requirements of Article 9:

*Income Statements*

	Years ended December 31,		
	2004	2005	2006
	MCh\$	MCh\$	MCh\$
<b>INTEREST INCOME:</b>			
Interest and fees on loans	550,046	646,208	708,580
Interest on investments	59,787	54,957	65,985
Interest on deposits with banks	2,498	9,061	8,568
Interest under agreements to resell	11,624	9,502	12,495
Total interest income	<b>623,955</b>	<b>719,728</b>	<b>795,628</b>
<b>INTEREST EXPENSE:</b>			
Interest on deposits	(93,982)	(176,803)	(262,171)
Interest on investments sold under agreements to purchase	(8,262)	(10,098)	(12,375)
Interest on short-term debt	(5,891)	(5,855)	(8,866)
Interest on long-term debt	(114,599)	(117,879)	(83,389)
Interest on other borrowed funds		(1,706)	(1,284)
Price-level restatement (1)	(7,897)	(11,690)	(8,526)
Total interest expense	<b>(230,631)</b>	<b>(324,031)</b>	<b>(376,611)</b>
Net interest income	<b>393,324</b>	<b>395,697</b>	<b>419,017</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>(33,339)</b>	<b>(23,496)</b>	<b>(51,932)</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>359,985</b>	<b>372,201</b>	<b>367,085</b>
<b>OTHER INCOME:</b>			
Fees and income from services, net	105,674	117,567	113,287
Brokerage and securities income net gain (losses) on trading activities	(26,436)	(20,361)	34,160
Net gains (losses) on foreign exchange	19,092	24,155	(10,802)
Other income	6,675	11,507	19,505
Total other income	<b>105,005</b>	<b>132,868</b>	<b>156,150</b>

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**OTHER EXPENSES:**

Salaries	(143,877)	(153,779)	(157,958)
Net premises and equipment expenses	(24,638)	(26,119)	(30,114)
Administration expenses	(86,396)	(103,990)	(113,148)
Other expenses	(33,707)	(29,433)	(29,850)
Minority interest	(1)		(1)
Total other expenses	<b>(288,619)</b>	<b>(313,321)</b>	<b>(331,071)</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>176,371</b>	<b>191,748</b>	<b>192,164</b>
<b>INCOME TAXES</b>	<b>(20,974)</b>	<b>(19,373)</b>	<b>(19,328)</b>
<b>NET INCOME FOR THE YEAR</b>	<b>155,397</b>	<b>172,375</b>	<b>172,836</b>

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

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

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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, 2006)

**28. 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, 2005 and 2006 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>2005</b>	<b>2006</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>ASSETS</b>		
Cash and due from banks	507,019	693,418
Term Federal Funds	236,209	101,869
Interest bearing deposits in other banks	74,803	631,709
Investments under agreements to resell	47,676	53,314
Trading investments	1,102,058	916,983
Available-for-sale investments	25,162	40,066
Held-to-maturity investments	15,739	16,003
Subtotal	<b>2,008,666</b>	<b>2,453,362</b>
Loans	7,782,624	8,856,672
Unearned income	(78,273)	(89,930)
Allowance for loan losses	(105,133)	(121,544)
Loans, net	<b>7,599,218</b>	<b>8,645,198</b>
Premises and equipment, net	178,863	202,498
Goodwill	598,573	598,573
Other assets	460,030	417,360
<b>TOTAL ASSETS</b>	<b>10,845,350</b>	<b>12,316,991</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<i>Deposits:</i>		
Non-interest bearing	1,897,754	2,070,115
Interest bearing	4,710,131	5,788,816
Total deposits	<b>6,607,885</b>	<b>7,858,931</b>
Short-term borrowings	139,417	384,245
Investments sold under agreements to repurchase	276,435	306,855
Other liabilities	454,275	501,756
Long-term debt	1,907,566	1,788,784

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<b>TOTAL LIABILITIES</b>	<b>9,385,578</b>	<b>10,840,571</b>
<i>Minority interest</i>	<b>1</b>	<b>2</b>
Shareholder s equity:		
Common stock	523,130	554,765
Other Shareholders equity	936,641	921,653
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>1,459,771</b>	<b>1,476,418</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>10,845,350</b>	<b>12,316,991</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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**28. 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,	
	2005 MCh\$	2006 MCh\$
Total assets of the Bank under Chilean GAAP	10,913,043	12,760,286
Elimination of assets offset by liabilities:		
Cash clearing account	(144,997)	(172,096)
Contingent loans	(739,109)	(988,359)
Reclassification of forward contracts	77,018	3,357
Reclassification of deferred taxes	(22,343)	(20,750)
U.S. GAAP adjustments, net	761,738	734,553
<b>Total assets as per Article 9 presentation</b>	<b>10,845,350</b>	<b>12,316,991</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,		
	2004 MCh\$	2005 MCh\$	2006 MCh\$
Tax expense for the year under Chilean GAAP	(19,414)	(21,840)	(24,096)
U.S. GAAP Adjustments:			
Deferred tax effect of applying SFAS No. 109	507		
Deferred tax effect of U.S. GAAP adjustments	(2,067)	2,467	4,768
<b>Tax expense for the year under U.S. GAAP</b>	<b>(20,974)</b>	<b>(19,373)</b>	<b>(19,328)</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

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**28. 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,	
	2005	2006
	MCh\$	MCh\$
<b>Deferred Tax Assets:</b>		
Allowance for loan losses	19,519	21,858
Obligations with repurchase agreements	12,077	8,921
Leasing equipment	6,951	3,344
Deffered income taxes related to purchase accounting of Banco de A. Edwards	3,674	3,310
Personnel provisions	2,216	2,336
Staff vacations	1,851	2,027
Staff severance indemnities	1,844	1,906
Accrued interests and readjustments from risky loan portfolio	2,242	1,462
Assets at market value	1,227	839
Charge-offs from financial investment	67	
Other adjustments	9,377	7,590
<b>Total Deferred Tax Assets</b>	<b>61,045</b>	<b>53,593</b>
<b>Deferred Tax Liabilities:</b>		
Deferred income taxes related to push down accounting adjustments	22,282	19,838
Investments sold under repurchase agreements	11,070	8,911
Depreciation and price-level restatement of fixed assets	6,356	5,990
Transitory assets	2,340	3,158
Other adjustments	2,577	2,691
<b>Total Deferred Tax Liabilities</b>	<b>44,625</b>	<b>40,588</b>
<b>NET DEFERRED TAX ASSETS</b>	<b>16,420</b>	<b>13,005</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

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**28. 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,		
	2004	2005	2006
	MCh\$	MCh\$	MCh\$
Chilean taxes due at the applicable statutory rate (1)	29,983	32,597	32,668
Increase (decrease) in rates resulting from:			
Non-deductible expenses	5,213	4,105	4,660
Non-taxable income	(16,424)	(17,492)	(18,175)
Effect on tax and financial equity restatement (2)	(1,661)	(1,970)	(674)
Other	3,863	2,133	849
<b>At effective tax rate</b>	<b>20,974</b>	<b>19,373</b>	<b>19,328</b>

(1) The Chilean statutory first category (corporate) income tax rate is 17% for 2004, 2005 and 2006.

(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.

*(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, 2004, 2005 and 2006:

	Year ended December 31, 2006		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
	MCh\$	MCh\$	MCh\$
Beginning balance	(3,655)	(916)	(4,571)
Price-level restatement (1)	113	(19)	94
Unrealized gains on securities available for sale:			
Unrealized gains arising during the period	(13)	2	(11)

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Less: reclassification adjustment for gains included in income

Net unrealized gains	(13)	2	(11)
Adjustment for translation differences	325		325
<b>Ending balance</b>	<b>(3,230)</b>	<b>(933)</b>	<b>(4,163)</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, 2006)

**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(u) Comprehensive Income (continued)*

	Year ended December 31, 2005		
	Before-tax amount MCh\$	Tax (expense) or benefit MCh\$	Net-of-tax amount MCh\$
Beginning balance	(314)	(923)	(1,237)
Price-level restatement (1)	52	(9)	43
Unrealized losses on securities available for sale:			
Unrealized losses arising during the period	(96)	16	(80)
Less: reclassification adjustment for losses included in net income			
Net unrealized losses	(96)	16	(80)
Adjustment for translation differences	(3,297)		(3,297)
<b>Ending balance</b>	<b>(3,655)</b>	<b>(916)</b>	<b>(4,571)</b>

	Year ended December 31, 2004		
	Before-tax amount MCh\$	Tax (expense) or benefit MCh\$	Net-of-tax amount MCh\$
Beginning balance	2,351	(971)	1,380
Price-level restatement (1)	(42)	7	(35)
Unrealized losses on securities available for sale:			
Unrealized losses arising during the period	(270)	46	(224)
Less: reclassification adjustment for losses included in net income	28	(5)	23
Net unrealized losses	(242)	41	(201)
Adjustment for translation differences	(2,381)		(2,381)
<b>Ending balance</b>	<b>(314)</b>	<b>(923)</b>	<b>(1,237)</b>

(1) Reflects the effect of inflation on the comprehensive income at the beginning of each period, adjusted to constant pesos of December 31, 2006.

*(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

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information is available that is regularly used by the Chief operating decision maker in deciding how to allocate resources and in assessing performance.

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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, 2006)**

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

*(v) Segment information (continued)*

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 stated by SFAS 131, figures for years before 2005 have been restated for comparative purpose according to the current segments in which the Bank measures its business segments during 2005. 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 of 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 services offered principally through the Bank's New York and Miami branches, but also includes representative offices in Buenos Aires, São Paulo, Mexico City and Beijing and a worldwide network of correspondent banks.

*Treasury,*

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

*Subsidiaries,*

The Subsidiaries segment includes non-banking financial services 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:

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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.

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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, 2006)

**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(v) Segment information (continued)*

The performance of the business areas, 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 based on the type and amount of the relevant transactions. These costs are mainly related to the use of technology and other computer equipment. Other indirect costs are allocated using activity-base costing methodology.

The following tables show the results of the Bank by operating segments for the three years ended December 31, 2006:

	Year ended December 31, 2006 (1)						
	Wholesale	Retail	International				Total
	Market	Market	Treasury	Banking	Subsidiaries	Other (2)	
MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
Operating Revenues	130,331	321,937	22,677	15,086	71,843	(1,144)	<b>560,730</b>
Provisions	5,794	(42,319)		(90)	(1,114)	1,501	<b>(36,228)</b>
Operating Expenses	(46,900)	(145,554)	(3,548)	(21,296)	(41,446)	(41,793)	<b>(300,537)</b>
Other income and expenses	(6,572)	(3,324)	(20)	(303)	(1,435)	7,033	<b>(4,621)</b>
<b>Net income before taxes</b>	<b>82,653</b>	<b>130,740</b>	<b>19,109</b>	<b>(6,603)</b>	<b>27,848</b>	<b>(34,403)</b>	<b>219,344</b>

	Year ended December 31, 2005 (1)						
	Wholesale	Retail	International				Total
	Market	Market	Treasury	Banking	Subsidiaries	Other (2)	
MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
Operating Revenues	120,975	291,006	19,226	14,123	71,546	12,343	<b>529,219</b>
Provisions	10,316	(31,546)		829	(972)	(1,118)	<b>(22,491)</b>
Operating Expenses	(48,659)	(138,478)	(2,748)	(21,022)	(41,409)	(30,002)	<b>(282,318)</b>
Other income and expenses	(16,273)	(4,020)	(397)	(159)	(2,086)	4,884	<b>(18,051)</b>

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<b>Net income before taxes</b>	<b>66,359</b>	<b>116,962</b>	<b>16,081</b>	<b>(6,229)</b>	<b>27,079</b>	<b>(13,893)</b>	<b>206,359</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, 2006)

**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(v) Segment information (continued)*

	Year ended December 31, 2004 (1)						Total MCh\$
	Wholesale Market MCh\$	Retail Market MCh\$	Treasury MCh\$	International Banking MCh\$	Subsidiaries MCh\$	Other (2) MCh\$	
Operating Revenues	109,178	264,568	28,767	12,433	69,487	12,492	<b>496,925</b>
Provisions	(8,240)	(31,669)		(89)	(1,807)	(268)	<b>(42,073)</b>
Operating Expenses	(50,397)	(128,595)	(2,432)	(8,398)	(37,033)	(28,010)	<b>(254,865)</b>
Other income and expenses	(14,750)	(2,641)	(226)	(152)	(839)	(522)	<b>(19,130)</b>
<b>Net income before taxes</b>	<b>35,791</b>	<b>101,663</b>	<b>26,109</b>	<b>3,794</b>	<b>29,808</b>	<b>(16,308)</b>	<b>180,857</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.

**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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**28. 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,		
	2004 MCh\$	2005 MCh\$	2006 MCh\$
<b>Total Interest Revenues</b>			
Republic of Chile	583,600	678,636	753,257
U.S.A.	13,771	19,148	24,397
Hong Kong			
<b>Total Net Income</b>			
Republic of Chile	157,572	190,000	199,473
U.S.A.	3,878	(5,618)	(4,420)
Hong Kong	(7)	137	195
<b>Mortgage Loans</b>			
Republic of Chile	867,235	684,424	581,218
U.S.A.			
Hong Kong			
<b>Commercial Loans</b>			
Republic of Chile	2,949,508	3,537,483	3,937,467
U.S.A.	83,383	47,148	33,442
Hong Kong			
<b>Income Taxes</b>			
Republic of Chile	(19,538)	(21,781)	(23,990)
U.S.A.	123	(30)	(66)
Hong Kong	1	(29)	(40)
<b>Bank Premises and equipment</b>			
Republic of Chile	139,600	143,171	149,375
U.S.A.	732	2,270	2,302
Hong Kong			
<b>Total Assets</b>			
Republic of Chile	9,550,660	10,347,194	12,290,366
U.S.A.	655,841	565,836	469,901
Hong Kong	2	13	19





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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, 2006)**

**28. 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.

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.

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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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**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, 2006)

**28. 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,			
	2005		2006	
	Carrying	Estimated	Carrying	Estimated
	Amount	fair value	Amount	fair value
	MCh\$	MCh\$	MCh\$	MCh\$
<b>ASSETS</b>				
Cash and due from banks	507,019	507,019	693,418	693,418
Interest bearing deposits in other banks	74,803	74,803	631,709	631,709
Term federal funds	236,209	236,209	101,869	101,869
Accounts receivable under spot foreign exchange transactions (1)	78,151	78,151	77,628	77,628
Financial investments	1,190,635	1,190,634	1,026,366	1,026,366
Loans, net (2)	7,599,218	8,134,636	8,645,198	8,382,822
Derivative instruments	78,459	78,459	53,924	53,924
<b>LIABILITIES</b>				
Deposits	6,607,884	6,724,403	7,858,932	9,567,349
Accounts payable under spot foreign exchange transactions (1)	52,167	52,167	81,406	81,406
Investments sold under agreements to repurchase	276,435	276,435	306,855	306,855
Short term and long term borrowings	2,046,983	1,993,248	2,173,029	2,187,005
Derivative instruments	138,295	138,295	73,312	73,312

(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, 2004, 2005 and 2006, 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,						
2004		2005		2006		Ownership Interest 2006 %
Investment	Income	Investment	Income	Investment	Income	
MCh\$	(Loss) MCh\$	MCh\$	(Loss) MCh\$	MCh\$	(Loss) MCh\$	

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Servipag Ltda.	1,040	161	1,257	216	1,513	256	50.00
Soc. Operadora de Tarjetas de Crédito Nexus S.A	1,127	182	1,168	186	1,219	237	25.81
Administrador Financiero Transantiago S.A.			1,297	71	1,197	(95)	20.00
Redbanc S.A.	935	146	931	142	943	153	25.42
Centro de Compensación Automatizado S.A.							
(CCA S.A.)	200	33	217	35	240	40	33.33
Artikos Chile S.A.	46	(175)	120	(187)	164	43	50.00
Total investments in other companies accounted for under the equity method	3,348	347	4,990	463	5,276	634	
Other investments carried at cost	2,948	142	2,979	129	2,972	293	
<b>Total investments in other companies</b>	<b>6,296</b>	<b>489</b>	<b>7,969</b>	<b>592</b>	<b>8,248</b>	<b>927</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, 2006)

**28. 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,	
	2005	2006
	MCh\$	MCh\$
Land and buildings	108,418	109,709
Machinery and equipment	39,369	46,344
Assets under lease	22,568	40,214
Furniture and fixtures	5,295	3,055
Other assets	2,361	2,335
Vehicles	852	841
<b>Bank premises and equipment, net</b>	<b>178,863</b>	<b>202,498</b>

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

*(z) Other assets and other liabilities**(1) Other assets*

	As of December 31,	
	2005	2006
	MCh\$	MCh\$
Intangibles	134,736	118,728
Amounts receivable under spot foreign exchange transaction	78,151	77,628
Derivative instruments	78,459	53,924
Payments from counterparties to be settled	52,294	36,766
Intangibles (software and licenses for trademark use)	14,597	22,655
Assets received in lieu of payment	15,722	17,492
Deferred fees	9,464	14,220
Deferred income tax assets, net	16,420	13,005
Transactions in process	6,993	8,313
Investments in other companies	7,969	8,248
Notes receivable	11,708	6,600
VAT fiscal credit	5,789	6,030
Recoverable taxes	1,831	4,916

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Assets to be securitized		4,860
Accounts receivable for assets received in lieu of payment sold	1,332	2,309
Prepaid expenses	1,715	1,855
Additional consideration paid in the purchase of mortgage bonds	1,799	1,150
Materials and supplies	637	640
Accounts receivable for financial investments sold	2,035	
Other	18,379	18,021
<b>Total other assets</b>	<b>460,030</b>	<b>417,360</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, 2006)

**28. 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,	
	2005	2006
	MCh\$	MCh\$
Accounts payable	86,523	156,151
Amounts payable under spot foreign exchange transaction	52,167	81,406
Derivative instruments, net	138,295	73,312
Provision for minimum dividend	55,356	58,574
Payments to counterparties to be settled	48,989	44,604
Notes payable	19,984	25,154
Accrued staff vacation expense	16,061	17,801
Transactions in process	2,122	7,882
Leasing deferred gains	6,816	6,464
Provision for staff severance indemnities and personnel expenses	6,930	6,436
VAT	4,324	5,931
Administration and credit card contract provision	3,818	5,500
Deferred fees	4,224	3,769
Legal contingencies provision	879	1,386
Allowance for income taxes, net	2,621	
Other	5,166	7,386
<b>Total other liabilities</b>	<b>454,275</b>	<b>501,756</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		As of	
	December 31,		December 31,	
	2005		2006	
	Book	Contract	Book	Contract
	value	amount	value	amount
		MCh\$		MCh\$



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	MCh\$		MCh\$	
Performance bonds	3,220	550,712	3,139	681,427
Foreign office guarantees	11	22,437	11	39,067
Standby letters of credits	136	11,307	129	26,343
<b>Total</b>	<b>3,367</b>	<b>584,456</b>	<b>3,279</b>	<b>746,837</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, 2006)

**28. 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 1 year	Due after	Due after	Total MCh\$	
		1 year but within	3 years but within		5 years Due after MCh\$
	MCh\$	3 year MCh\$	5 years MCh\$	5 years MCh\$	
Performance bonds	398,065	239,332	43,535	495	681,427
Foreign office guarantees	39,067				39,067
Standby letters of credits	5,259	19,827	1,257		26,343
<b>Total</b>	<b>442,391</b>	<b>259,159</b>	<b>44,792</b>	<b>495</b>	<b>746,837</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, 2005			As of December 31, 2006		
	Long-term MCh\$	Short-term MCh\$	Total MCh\$	Long-term MCh\$	Short-term MCh\$	Total MCh\$
Foreign borrowings	661,108	14,277	675,385	319,173	272,400	591,573
Bonds	331,522		331,522	554,272		554,272
Mortgage finance bonds	600,439		600,439	505,725		505,725
Subordinated bonds	311,695		311,695	405,942		405,942
Investments under agreements to repurchase		276,435	276,435		306,855	306,855
Borrowings from domestic financial institutions		92,054	92,054		88,261	88,261
Other obligations	1,366	33,086	34,452	2,848	23,584	26,432
Central Bank Credit lines for renegotiation of loans	1,436		1,436	824		824
<b>Total other interest bearing liabilities</b>	<b>1,907,566</b>	<b>415,852</b>	<b>2,323,418</b>	<b>1,788,784</b>	<b>691,100</b>	<b>2,479,884</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, 2006)

**28. 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 4.56% as of December 31, 2006.

The maturities of outstanding mortgage bond amounts as of December 31, 2006 are as follows:

	As of
	December 31,
	2006
	MCh\$
Due within 1 year	66,944
Due after 1 year but within 2 years	49,487
Due after 2 years but within 3 years	48,606
Due after 3 years but within 4 years	47,341
Due after 4 years but within 5 years	44,838
Due after 5 years	248,509
<b>Total mortgage finance bonds</b>	<b>505,725</b>

*(ab) Shareholders Equity*

The Bank's paid-in capital consists of 69,037,564,665 authorized shares with no fixed nominal value, issued and outstanding as of December 31, 2006. 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, 2004, 2005 and 2006 (presented in constant Chilean pesos as of December 31, 2006) are as follows:

Paid during the year ended  
December 31,

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	2004	2005	2006
	MCh\$	MCh\$	MCh\$
Dividends	142,135	161,910	153,285
Dividends per share	2.09	2.44	2.25

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(Restated for general price - level changes and expressed in millions of constant

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**28. 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, 2004, 2005 and 2006 are summarized as follows:

	Years ended December 31,					
	2004		2005		2006	
	Income MCh\$	Expenses MCh\$	Income MCh\$	Expenses MCh\$	Income MCh\$	Expenses MCh\$
<b>Fees and income from services</b>						
Mutual funds management	21,380	(1,936)	25,293	(2,334)	25,472	(2,341)
Sight accounts and ATMs	20,935	(9,794)	22,875	(9,495)	24,592	(10,108)
Insurance	15,293	(182)	20,579	(160)	24,429	(201)
Stock brokerage	13,601	(820)	15,448	(32)	11,127	(626)
Cash management services	8,559	(10)	9,795	(235)	10,865	(94)
Collection of overdue loans	9,064		8,838		9,883	
Credit lines	7,137		7,425		8,078	
Demand deposits	6,051		5,959		6,723	
Contingent fees	3,945		4,440		4,963	
Credit	5,730		9,764		4,567	
Foreign trade and currency exchange	3,606		3,407		3,863	
Income and revenue from assets received in lieu of payment	5,808	(1,710)	5,178	(1,586)	3,740	(1,408)
Financial advisory services	2,678		942		2,844	
Letters of credit guarantees, collaterals and other contingent loans	3,149		3,083		2,470	
Custody and trust services	1,480		1,799		2,076	
Collection services	3,767		2,580		1,944	
Leasing	1,719	(91)	1,623	(313)	1,467	(199)
Factoring	670	(53)	631	(8)	869	(7)
Teller services expenses		(3,584)		(4,043)		(4,606)
Cobranding		(3,843)		(5,939)		(6,977)
Fees from sales force		(9,285)		(10,007)		(13,354)
Other	3,972	(1,562)	3,806	(1,746)	5,455	(2,219)
<b>Total</b>	<b>138,544</b>	<b>(32,870)</b>	<b>153,465</b>	<b>(35,898)</b>	<b>155,427</b>	<b>(42,140)</b>

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(ad) Other income and expense*

	Years ended December 31,					
	2004		2005		2006	
	Income MCh\$	Expenses MCh\$	Income MCh\$	Expenses MCh\$	Income MCh\$	Expenses MCh\$
<b>Other income and expenses</b>						
Gains on sales of assets received in lieu of payment	891		4,478		9,541	
Prior year tax differences	5				3,343	
Rental income	2,492		2,402		2,396	
Assets received in lieu of payment	1,082		2,891		1,640	
Income (losses) attributable to investments in other companies, net	489		592		927	
Gains from sale of shares					447	
Recoveries of expenses	617		301		258	
Fair Value Other		(78)		(354)	221	
Foreign trade income	154		134		110	
Income from sale of fixed assets	314		125		71	
Dividends received	59		93		55	
Leasing income	80		57		6	
Tax expenses from previous years		(2,377)				
Provision and charge-offs other assets		(432)				
Amortization of intangibles		(16,832)		(13,998)		(16,008)
Charge-offs assets received in lieu of payment		(8,694)		(11,053)		(9,832)
Charge-offs		(1,404)		(1,311)		(1,360)
Write-offs for frauds		(1,124)		(557)		(558)
Legal contingencies provision		(193)		(20)		(537)
Expenses on charge-offs for leasing		(256)		(367)		(199)
Advertising expenses		(56)		(63)		(70)
Charge-offs and provisions related to fixed assets		(46)		(25)		(17)
Provision for recovered leased assets		(1,538)		(1,084)		(15)
Reversal of adjustments and interest from previous years		(131)		(49)		(13)
Other	492	(546)	434	(552)	490	(1,241)
<b>Total</b>	<b>6,675</b>	<b>(33,707)</b>	<b>11,507</b>	<b>(29,433)</b>	<b>19,505</b>	<b>(29,850)</b>

*(ae) Recent accounting pronouncements*

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

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recorded as a transition adjustment to opening retained earnings. Subsequent changes in fair value are recognized in earnings. The Company is currently assessing the impact that the adoption of the standard will have on its consolidated financial statements.

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.

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**Chilean pesos as of December 31, 2006)**

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

*(ae) Recent accounting pronouncements (continued)*

In July 2006, the FASB issued FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes . FIN 48 is an interpretation of SFAS No. 109, Accounting for Income Taxes and seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. FIN 48 clarifies the accounting for income taxes by prescribing a minimum threshold a tax position is required to meet before being recognized in the financial statements. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48 is effective as of the beginning of our 2007 fiscal year. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. Management is currently evaluating the effect of this interpretation on the Bank's results of operations and financial condition.

On February 16, 2006, the FASB issued SFAS No. 155 ( SFAS 155 ), Accounting for Certain Hybrid Instruments , which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS 133. The statement is effective as of January 1, 2007, with earlier adoption permitted. Management is currently evaluating the effect of the statement on the Bank's results of operations and financial condition.