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

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

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 x 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 x

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 x 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 x Non-accelerated filer ¨

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

¨ Item 17 x 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 x

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PRESENTATION OF FINANCIAL INFORMATION

We prepare our audited consolidated financial statements in Chilean pesos and in accordance with generally accepted accounting principles in Chile, or Chilean GAAP, and the rules of the *Superintendencia de Bancos e Instituciones Financieras*, or the Chilean Superintendency of Banks. Together, these requirements differ in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. References to Chilean GAAP in this annual report are to Chilean GAAP, as supplemented by the applicable rules of the Chilean Superintendency of Banks. See Note 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 Chilea 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 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.

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Item 3. Key Information

SELECTED FINANCIAL DATA

The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements appearing elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with Chilean GAAP and the rules of the Chilean 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,					
	2002	2003	2004	2005	2006	2006
	(in millions of constant Ch$ as of December 31, 2006, except share data)					(in thousands of U.S.$)
CONSOLIDATED INCOME STATEMENT DATA						
Chilean GAAP:						
Interest revenue	Ch$ 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[(1)]	0.85	2.08	2.41	2.75	2.84	0.0053
Dividends per share[(2)]	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	
U.S. GAAP[(3)]:						
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[(1)]	0.27	2.08	2.32	2.57	2.51	4.70
Weighted average number of total shares[(4)]	68,080	68,080	66,933	67,091	68,821	

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

	At or for the year ended December 31,				
	2002	2003	2004	2005	2006
CONSOLIDATED RATIOS					
Chilean GAAP:					
Profitability and Performance					
Net interest margin[5]	4.10%	3.90%	4.09%	4.10%	3.95%
Return on average total assets[6]	0.59	1.45	1.59	1.75	1.68
Return on average shareholders equity[7]	8.69	20.01	23.56	26.66	25.00
Capital					
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[8]	14.10	15.14	17.20	16.68	18.65
Credit Quality					
Substandard loans as a percentage of total loans[9]	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[9]	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[10]	3.00	2.36	2.23	1.72	1.50
Operating Ratios					
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
U.S. GAAP:					
Profitability and Performance					
Net interest margin[11]	4.53	3.03	4.34	4.25	4.08
Return on average total assets[12]	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.

(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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Exchange Rates

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:

	Daily Observed Exchange Rate Ch$ per U.S.$(1)			
Year	Low(2)	High(2)	Average(3)	Period End(4)
2002	Ch$ 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(5)	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.

(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 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 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.

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 (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.

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

Merger with Banco de A. Edwards

On December 6, 2001, our shareholders approved the merger with Banco de A. Edwards, which became effective on January 1, 2002. Banco de A. Edwards had been listed on the NYSE since 1995, and in January 2002, we were listed on the NYSE under the symbol BCH. Since 2002, our shares have also been listed on the Latin American Stock Exchange of the Madrid Stock Exchange, or Latibex, and the London Stock Exchange, or LSE.

We concluded the merger process at the end of 2002 with the consolidation of a new corporate structure and the integration of our technological platforms. 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 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.

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.

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 inquires, (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.

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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		Consolidated net income before tax (1)
	(in millions of constant Ch$ as of December 31, 2006, except for percentages)		
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)
Total	Ch$ 9,695,166	100.0%	Ch$ 219,344

(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)
Total	Ch$ 496,925	Ch$ 529,219	Ch$ 560,730

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
Total	Ch$ 496,925	Ch$ 529,219	Ch$ 560,730

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[(1)]	1,325,307	33.2

Total	Ch$ 3,992,748	100.0%

(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:

	As of December 31, 2006 (in millions of constant Ch$ as of December 31, 2006, except for percentages)	
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[(1)]	1,311,469	35.3
Total	Ch$ 3,707,856	100.0%

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

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

Installment Loans

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

At December 31, 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 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, Banjoven*, *Cheque Electronico, Multiedwards, Cuenta Directa* and *Cuenta Familiar*) based on their specific functions and the relevant brand and target market to which they are oriented. As of December 31, 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 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:

	As of December 31, 2006 (in millions of constant Ch$ as of December 31, 2006, except for percentages)	
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 employee s account at Banco CrediChile. We believe this product can lead to stronger long-term relationships with our wholesale customers and with the employees of such customers.

Wholesale Market

Our wholesale market business segment serves the needs of corporate customers with annual sales in excess of Ch$1,200 million. As of December 31, 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:

	As of December 31, 2006 (in millions of constant Ch$ as of December 31, 2006, except for percentages)	
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
Total	Ch$ 5,013,376	100.0%

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

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:

	As of December 31, 2006 (in millions of constant Ch$ as of December 31, 2006, except for percentages)		
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
Total	Ch$	3,740,235	100.0%

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:

	As of December 31, 2006 (in millions of constant Ch$ as of December 31, 2006, except for percentages)		
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
Total	Ch$	1,273,141	100.0%

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 Asesoria 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	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		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 Asesoria 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

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 Asesoria 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$)
Utilidades	Fixed income (short/medium term)	Ch$	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

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

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 Asesoria Financiera S.A. The services offered by Banchile Asesoria 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 Asesoria 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.

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, 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 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 porition 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.

In August 2002, Banco Santiago and Banco Santander Chile, then the second and fourth largest banks in Chile, respectively, merged and became Chile s largest bank. In 2003, Banco del Desarrollo merged with Banco Sudameris, and in 2004, Dresdner Banque Nationale de Paris merged with Banco Security. In 2005, Banco de Credito e Inversiones merged with Banco Conosur. 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(1)		Deposits		Shareholders Equity(2)	
	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.

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Loans

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

	Bank Loans(1) As of December 31,				
	2002	2003	2004	2005	2006
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(2)	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
Total market share	66.4%	66.5%	67.0%	67.7%	67.3%

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.

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:

	Allowances to Total Loans As of December 31,				
	2002	2003	2004	2005	2006
Banco de Chile	3.58%	2.89%	2.23%	1.70%	1.48%
Banco de Credito e Inversiones[1]	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:

	Past Due Loans to Total Loans As of December 31,		
	2004	2005	2006
BBVA Bilbao Vizcaya	1.64%	1.13%	0.93%
Banco Santander Chile	1.52	1.05	0.79
Banco de Credito e Inversiones[1]	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.

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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:

	Deposits As of December 31, 2004	2005	2006
Banco de Chile	16.4%	16.4%	17.6%
Banco Santander Chile	20.6	21.5	22.0
Banco de Credito e Inversiones[1]	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		
Total market share	63.0%	63.1%	64.9%

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:

	Shareholders Equity As of December 31, 2004	2005	2006
	(in millions of constant Ch$ as of December 31, 2006)		
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[1]	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.

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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:

	Return on Average Shareholders Equity Year Ended December 31,				
	2002	**2003**	**2004**	**2005**	**2006**
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 [1]	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:

	Efficiency Ratio[1] As of December 31,		
	2004	**2005**	**2006**
BBVA Bilbao Vizcaya	68.1%	67.9%	66.6%
Banco de Credito e Inversiones[2]	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 banks 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;

- 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.

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

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 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 predictablecircumstances.

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[(1)]	**Estimated range of loss**	**Allowance[(2)]**
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 Bank s regulations, banks may create allowances in addition to those established pursuant to their model-based evaluation of the loan portfolio. However, a bank may create additional allowances only to cover specific risks that have been authorized by the board of directors. Our board of directors has established additional allowances to cover the unexpected deterioration of our loan portfolio.

Obligations Denominated in Foreign Currencies

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

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

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

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

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

Rating Agency	Short Term	Long Term
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 exepct 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.

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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:

$$Rp = \frac{1 + Np}{1 + I} \quad 1$$

and

$$Rd = \frac{(1 + Nd)(1 + D)}{1 + I} \quad 1$$

Where:

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

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

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

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

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

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

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

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

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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):

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

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:

	Year Ended December 31,											
	2004				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	Avera real rate
	(in millions of constant Ch$ as of December 31, 2006, except percentages)											
ets												
rest ning ts rbank osits												
								%				
ign ency	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
l	102,306	2,498	2.44	(6.59)	160,792	9,061	5.64	(6.40)	109,690	8,568	7.81	9.2
ncial stments												
	1,045,420	27,548	2.64	0.20	727,182	24,465	3.36	(0.29)	630,636	30,990	4.91	2.2
	144,290	8,813	6.11	3.59	125,628	7,783	6.20	2.45	154,594	9,235	5.97	3.3
ign ency	750,439	23,426	3.12	(5.97)	612,772	22,709	3.71	(8.11)	489,400	25,760	5.26	6.6
l	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
nmercial s												
	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
	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	3.9
ign ency	234,257	7,138	3.05	(6.04)	291,900	11,404	3.91	(7.93)	258,282	12,799	4.96	6.3
l	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
sumer s												
	645,079	125,404	19.44	16.61	761,415	144,251	18.95	14.75	944,821	192,656	20.39	17.3
	26,297	2,728	10.37	7.76	24,644	2,757	11.19	7.26	24,715	2,391	9.67	6.9
ign ency												
l	671,376	128,132	19.08	16.26	786,059	147,008	18.70	14.51	969,536	195,047	20.12	17.1
rbank s												
	33,157	602	1.82	(0.60)	39,076	1,375	3.52	(0.14)	17,268	894	5.18	2.5

ign ency	14,626	265	1.81	(7.16)	1,546	78	5.05	(6.92)	557	35	6.28	7.6
l	47,783	867	1.81	(2.61)	40,622	1,453	3.58	(0.39)	17,825	929	5.21	2.1
sing racts												
	16,899	1,135	6.72	4.18	18,513	1,641	8.86	5.02	21,980	2,397	10.91	8.1
	266,565	27,501	10.32	7.70	341,709	37,775	11.05	7.13	421,929	36,038	8.54	5.8
ign ency	38,192	2,253	5.90	(3.44)	39,214	2,399	6.12	(5.97)	40,249	2,852	7.09	8.5
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
eign e loans												
	21,358	510	2.39	(0.04)	22,500	898	3.99	0.32	24,516	529	2.16	(0.4
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
rtgage s												
	1,058,769	105,943	10.01	7.40	737,123	84,703	11.49	7.55	623,355	55,955	8.98	6.2
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	6.2
tingent s												
	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	(1.8
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	(0.3
due s												
	23,055	898	3.90	1.43	20,813	1,148	5.52	1.79	23,991	1,006	4.19	1.5
	76,223	834	1.09	(1.30)	60,410	630	1.04	(2.52)	41,794	21	0.05	(2.4
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
al rest ning ts												
	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	7.6
	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	6.2

1	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.

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	Year Ended December 31,											
	2004				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)											
Assets												
Non interest earning assets												
Cash and due from banks												
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			
Allowances for loan losses												
Ch$	(173,297)				(141,894)				(139,996)			
UF												
Foreign currency	(2,068)				(1,493)				(251)			
Total	(175,365)				(143,387)				(140,247)			
Fixed assets												
Ch$	135,467				138,332				145,248			
UF												
Foreign currency	859				1,684				2,300			
Total	136,326				140,016				147,548			
Other assets												
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			
Total non interest earning assets												
Ch$	834,513				864,562				684,434			
UF	1,300				1,385				1,536			
	264,769				371,614				653,218			

Foreign currency						
Total	1,100,582		1,237,561		1,339,188	
Total assets						
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
Total	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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	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	Averag real rate
	(in millions of constant Ch$ as of December 31, 2006, except percentages)											
bilities												
erest ring ilities												
ings ounts												
.												
	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
eign ency												
al	155,255	3,444	2.22	(0.21)	142,192	5,462	3.84	0.17	138,928	2,843	2.05	(0.5
ne osits												
.	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
	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
eign ency	899,333	15,252	1.70	(7.27)	715,591	21,712	3.03	(8.70)	813,958	11,822	1.45	2.8
al	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
ntral nk rowings												
.	10,646	220	2.07	(0.35)	30,866	973	3.15	(0.49)	11,808	621	5.26	2.6
	2,455	157	6.40	3.87	1,625	97	5.97	2.23	1,127	80	7.10	4.4
eign ency												
al	13,101	377	2.88	0.44	32,491	1,070	3.29	(0.35)	12,935	701	5.42	2.7
ourchase eements												
.	347,894	4,231	1.22	(1.19)	199,920	5,505	2.75	(0.87)	196,223	9,762	4.97	2.3
	844				1,286				227			
eign ency	100,631	4,031	4.01	(5.16)	103,608	4,593	4.43	(7.47)	75,498	2,613	3.46	4.8
al	449,369	8,262	1.84	(2.07)	304,814	10,098	3.31	(3.11)	271,948	12,375	4.55	3.0
rtgage ance ds												
.												
	966,858	80,258	8.30	5.73	629,747	55,649	8.84	4.99	496,053	36,445	7.35	4.6
eign ency												

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
her rest ring ilities[(1)]												
.	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
eign ency	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
al rest ring ilities												
.	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
eign ency	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)											
Liabilities												
Non interest bearing liabilities												
Non interest bearing demand deposits												
Ch$	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			
Total	2,209,133				2,231,730				2,048,877			
Contingent liabilities												
Ch$	62,935				83,138				112,996			
UF	195,974				295,821				378,722			
Foreign currency	247,070				250,360				336,545			
Total	505,979				629,319				828,263			
Other non interest bearing												
Ch$	204,931				242,174				231,634			
UF	5,094				7,085				12,217			
Foreign currency	105,729				122,040				151,429			
Total	315,754				371,299				395,280			
Shareholders equity												
Ch$	685,347				692,011				781,054			
UF												
Foreign currency												
Total	685,347				692,011				781,054			
Total non interest bearing liabilities and shareholders equity												

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	
Total	3,716,213		3,924,359		4,053,474	
Total liabilities and shareholders equity						
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
Total	Ch$ 10,155,754	Ch$ 227,283	Ch$ 10,542,356	Ch$ 316,677	Ch$ 11,607,485	Ch$ 372,244

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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)		
Total average interest earning assets			
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
Total	9,055,172	9,304,795	10,268,297
Net interest earned[1]			
Ch$	190,579	181,342	181,806
UF	152,835	174,527	160,526
Foreign currency	26,674	25,238	63,078
Total	Ch$ 370,088	Ch$ 381,107	Ch$ 405,410
Net interest margin, nominal basis[2]			
Ch$	6.07%	5.70%	5.16%
UF	4.00	4.21	3.30
Foreign currency	1.28	1.27	3.36
Total	4.09%	4.10%	3.95%

(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) from 2004 to 2005 due to changes in Volume	Rate	Net change from 2004 to 2005	Increase (Decrease) from 2005 to 2006 due to changes in Volume	Rate	Net change from 2005 to 2006
	(in millions of constant Ch$ as of December 31, 2006)					
Assets						
Interest earning assets						
Interbank deposits						
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)
Financial investments						
Ch$	(9,602)	6,519	(3,083)	(3,583)	10,108	6,525
UF	(1,155)	125	(1,030)	1,739	(287)	1,452
Foreign currency	(4,696)	3,979	(717)	(5,194)	8,245	3,051
Total	(15,453)	10,623	(4,830)	(7,038)	18,066	11,028
Commercial loans						
Ch$	14,844	3,155	17,999	17,938	14,145	32,083
UF	39,565	22,891	62,456	48,429	(45,659)	2,770
Foreign currency	1,987	2,279	4,266	(1,419)	2,814	1,395
Total	56,396	28,325	84,721	64,948	(28,700)	36,248
Consumer loans						
Ch$	22,111	(3,264)	18,847	36,760	11,645	48,405
UF	(177)	206	29	8	(374)	(366)
Foreign currency						
Total	21,934	(3,058)	18,876	36,768	11,271	48,039
Interbank loans						
Ch$	124	649	773	(963)	482	(481)
UF						
Foreign currency	(378)	191	(187)	(59)	16	(43)
Total	(254)	840	586	(1,022)	498	(524)
Leasing contracts						
Ch$	116	390	506	339	417	756
UF	8,195	2,079	10,274	7,844	(9,581)	(1,737)
Foreign currency	61	85	146	65	388	453
Total	8,372	2,554	10,926	8,248	(8,776)	(528)
Foreign trade loans						
Ch$						

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

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	Increase (Decrease) from 2004 to 2005 due to changes in Volume	Increase (Decrease) from 2004 to 2005 due to changes in Rate	Net change from 2004 to 2005	Increase (Decrease) from 2005 to 2006 due to changes in Volume	Increase (Decrease) from 2005 to 2006 due to changes in Rate	Net change from 2005 to 2006
	(in millions of constant Ch$ as of December 31, 2006)					
Liabilities						
Interest bearing liabilities						
Savings accounts						
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)
Time deposits						
Ch$	5,830	36,614	42,444	19,204	62,202	81,406
UF	14,030	17,869	31,899	27,843	(11,372)	16,471
Foreign currency	(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
Central Bank borrowings						
Ch$	590	163	753	(794)	442	(352)
UF	(50)	(10)	(60)	(33)	16	(17)
Foreign currency						
Total	540	153	693	(827)	458	(369)
Repurchase agreements						
Ch$	(2,372)	3,646	1,274	(104)	4,361	4,257
UF						
Foreign currency	122	440	562	(1,095)	(885)	(1,980)
Total	(2,250)	4,086	1,836	(1,199)	3,476	2,277
Mortgage finance bonds						
Ch$						
UF	(29,507)	4,898	(24,609)	(10,704)	(8,500)	(19,204)
Foreign currency						
Total	(29,507)	4,898	(24,609)	(10,704)	(8,500)	(19,204)
Other interest bearing liabilities						
Ch$	539	(608)	(69)	455	944	1,399
UF	19,029	1,060	20,089	9,180	(17,064)	(7,884)
Foreign currency	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)
Total interest bearing liabilities						
Ch$	4,587	39,815	44,402	18,761	67,949	86,710
UF	3,190	26,147	29,337	26,163	(39,416)	(13,253)

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

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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 December 31, 2006
	2004	2005	2006	%
	(in millions of constant Ch$ as of December 31, 2006, except for rate data)			
Instruments issued by the Chilean Government and the Central Bank of Chile				
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
Other Financial Instruments				
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

	As of December 31,			Weighted Average Nominal Rate as of December 31, 2006
	2004	2005	2006	

	(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, 2004	2005	2006	Weighted Average Nominal Rate as of 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 [1]:	
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	2004 Carrying Value	2004 Unrealized Gains (Losses)	2004 Estimated Fair Value	2005 Carrying Value	2005 Unrealized Gains (Losses)	2005 Estimated Fair Value	2006 Carrying Value	2006 Unrealized Gains (Losses)	2006 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

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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.

	As of December 31,				
	2002	2003	2004	2005	2006
	(in millions of constant Ch$ as of December 31, 2006)				
Commercial loans:					
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
Subtotal commercial loans	4,294,828	4,362,361	5,036,646	5,999,916	6,992,625
Mortgage loans:					
Residential	635,965	654,964	469,469	375,689	323,288
Commercial	664,146	568,046	397,766	308,735	257,930
Subtotal mortgage loans	1,300,111	1,223,010	867,235	684,424	581,218
Consumer loans	575,434	638,252	731,810	882,291	1,072,324
Past due loans:					
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
Subtotal past due loans	158,712	114,386	89,576	72,847	61,685
Contingent loans	418,051	444,101	561,564	738,770	987,314
Total loans	Ch$ 6,747,136	Ch$ 6,782,110	Ch$ 7,286,831	Ch$ 8,378,248	Ch$ 9,695,166

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.

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	Due after 6 months but within 12 months	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years
	(in millions of constant Ch$ as of December 31, 2006)						
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