

BANK OF CHILE  
Form 20-F  
June 24, 2005  
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As filed with the Securities and Exchange Commission on June 24, 2005

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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, 2004

Commission File Number 001-15266

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**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)

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**Banco de Chile**

**Ahumada 251**

**Santiago, Chile**

**(562) 653-1111**

**(Address of principal executive offices)**

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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

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

None

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: 68,079,783,605

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.

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Yes  No

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

Item 17  Item 18

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**THE MERGER**

On January 1, 2002, Banco de Chile merged with Banco de A. Edwards in a transaction in which Banco de Chile was the surviving corporate entity. As used in this annual report, unless the context otherwise requires, references to Banco de Chile relating to any date or period prior to January 1, 2002 (the effective date of the merger) are to Banco de Chile as it existed prior to the consummation of the merger, and such references relating to any date or period after January 1, 2002 are to Banco de Chile after the consummation of the merger.

**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, 2004 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, 2004.

In this annual report, references to \$, U.S.\$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch\$ are to Chilean pesos and references to UF are to *Unidades de Fomento*. The *Unidad de Fomento*, or UF, is a unit of account which is linked to, and which is adjusted daily to reflect changes in, the Consumer Price Index. As of December 31, 2004, one UF equaled U.S.\$30.93 and Ch\$17,317.05. See note 1(c) 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 30, 2004 (the latest practicable date, as December 31, 2004 was a banking holiday in Chile). The observed exchange rate on June 21, 2005 was Ch\$582.55 = 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

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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.

## **PART I**

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

Not Applicable.

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

Not Applicable.

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

The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements appearing elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with Chilean GAAP and the rules of the Chilean Superintendency of Banks, which together differ in certain significant respects from U.S. GAAP. Note 28 to our audited consolidated financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended December 31, 2002, 2003 and 2004 and shareholders' equity at December 31, 2003 and 2004.

Under Chilean GAAP, the merger between Banco de Chile and Banco de A. Edwards, which were under the common control of Quiñenco S.A. from March 27, 2001, until the merger January 1, 2002, was accounted for as a pooling of interest on a prospective basis. As such, the historical financial statements for periods prior to the merger were not restated under Chilean GAAP. Under U.S. GAAP, we were required to restate our previously issued U.S. GAAP historical financial information to retroactively present the financial results for the merged bank as if Banco de Chile and Banco de A. Edwards had been combined throughout the periods during which common control existed. Under U.S. GAAP, the reported financial information for periods presented prior to March 27, 2001 reflects book values of Banco de A. Edwards, which had been under Quiñenco S.A.'s control since September 2, 1999. See note 28 to our audited consolidated financial statements.

At or for the year ended December 31,

	2000	2001	2002	2003	2004	2004
	(in millions of constant Ch\$ as of December 31, 2004, except share data)					(in thousands of U.S.\$)
<b>CONSOLIDATED INCOME STATEMENT DATA</b>						
<b>Chilean GAAP:</b>						
Interest revenue	Ch\$ 604,436	Ch\$ 549,738	Ch\$ 714,018	Ch\$ 439,422	Ch\$ 543,372	U.S.\$ 970,602
Interest expense	(378,881)	(320,633)	(333,472)	(209,340)	(214,900)	(383,867)
Net interest revenue	225,555	229,105	380,546	230,082	328,472	586,735
Provisions for loan losses	(42,101)	(48,930)	(104,192)	(61,612)	(73,512)	(131,311)
Total fees and income from services, net	41,109	43,007	78,733	98,251	126,842	226,572
Total other operating income (loss), net	12,771	8,894	(31,621)	98,801	14,509	25,916
Total other income and expenses, net	12,344	13,125	(3,456)	14,239	22,434	40,074
Total operating expenses	(147,882)	(147,748)	(256,780)	(227,557)	(240,302)	(429,241)
Loss from price-level restatement	(10,047)	(6,160)	(9,934)	(4,137)	(7,466)	(13,336)
Income before income taxes	91,749	91,293	53,296	148,067	170,977	305,409
Income taxes	(1,647)	1,442	1,194	(14,250)	(18,349)	(32,776)
Net income	90,102	92,735	54,490	133,817	152,628	272,633
Earnings per share(1)	2.01	2.06	0.80	1.97	2.28	
Dividends per share(2)	2.07	2.00	2.07	0.80	2.03	
Weighted average number of shares (in millions)	44,932.70	44,932.70	68,079.78	68,079.78	66,932.68	
<b>U.S. GAAP(3):</b>						
Interest revenue	333,028	729,044	736,605	463,551	571,365	1,020,603
Interest expense	(215,821)	(425,130)	(355,149)	(209,251)	(218,067)	(389,524)



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Net interest revenue	117,207	303,914	381,456	254,300	353,298	631,079
Provisions for loan losses	(37,368)	(55,242)	(110,348)	(28,094)	(31,519)	(56,301)
Net income	(97)	51,517	17,552	133,658	146,912	262,422
Earnings per share(1)	(0.0)	1.15	0.26	1.96	2.19	
Weighted average number of total shares(4)	23,147	57,587	68,080	68,080	66,933	

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At or for the year ended December 31,

	2000	2001	2002	2003	2004	2004
	(in millions of constant Ch\$ as of December 31, 2004, except share data)					(in thousands of U.S.\$)
<b>CONSOLIDATED BALANCE SHEET DATA</b>						
<b>Chilean GAAP:</b>						
Cash and due from banks	Ch\$ 528,531	Ch\$ 562,955	Ch\$ 700,267	Ch\$ 878,255	Ch\$ 890,616	U.S.\$ 1,590,869
Financial investments	1,478,121	1,759,103	1,655,261	1,964,232	1,607,273	2,871,001
Loans, net of allowances	3,984,728	3,973,488	6,155,049	6,227,855	6,735,169	12,030,740
Other assets	196,810	193,432	384,305	410,808	416,145	743,342
<b>Total assets</b>	<b>6,188,190</b>	<b>6,488,978</b>	<b>8,894,882</b>	<b>9,481,150</b>	<b>9,649,203</b>	<b>17,235,952</b>
Deposits	3,765,757	3,936,881	5,319,389	5,446,709	5,785,727	10,334,793
Other interest bearing liabilities	1,601,147	1,699,910	2,364,851	2,635,120	2,362,160	4,219,422
Other liabilities	400,805	427,509	570,620	686,253	826,783	1,476,848
<b>Total liabilities</b>	<b>5,767,709</b>	<b>6,064,300</b>	<b>8,254,860</b>	<b>8,768,082</b>	<b>8,974,670</b>	<b>16,031,063</b>
Shareholders equity	Ch\$ 420,481	Ch\$ 424,678	Ch\$ 640,022	Ch\$ 713,068	Ch\$ 674,533	U.S.\$ 1,204,889
<b>U.S. GAAP(3):</b>						
Financial investments	225,928	1,733,770	1,484,672	1,671,794	1,486,140	2,654,627
Loans, net	2,280,774	5,915,863	5,808,387	5,880,857	6,291,266	11,237,815
Total assets	2,987,107	9,222,042	8,900,762	9,437,600	9,623,775	17,190,531
Total liabilities	2,561,125	8,015,312	7,575,683	8,063,434	8,299,500	14,825,032
Total shareholders equity	425,982	1,206,730	1,325,079	1,374,166	1,324,275	2,365,499

At or for the year ended December 31,

	2000	2001	2002	2003	2004		
<b>CONSOLIDATED RATIOS</b>							
<b>Chilean GAAP:</b>							
<i>Profitability and Performance</i>							
Net interest margin(5)			4.27%	3.87%	4.52%	2.75%	3.84%
Return on average total assets(6)			1.57	1.44	0.59	1.45	1.59
Return on average shareholders equity(7)			23.68	23.21	8.69	20.01	23.56
<i>Capital</i>							
Average shareholders equity as a percentage of total assets			6.62	6.21	6.75	7.22	6.75
Bank regulatory capital as a percentage of minimum regulatory capital			203.86	197.67	218.35	202.71	179.13
Equity as a percentage of total assets			6.50	6.21	6.75	7.22	6.75
Ratio of liabilities to regulatory capital(8)			17.46	18.27	14.10	15.14	17.20
<i>Credit Quality</i>							
Substandard loans as a percentage of total loans(9)			5.75	6.28	6.69	5.16	6.51
Past due loans as a percentage of total loans			1.36	1.23	2.35	1.69	1.23
Allowances for loan losses as a percentage of substandard loans(9)			52.52	54.60	52.44	55.56	38.41
Allowances for loan losses as a percentage of past due loans			222.46	278.72	149.07	170.09	181.55
Allowances for loan losses as a percentage of total loans			3.02	3.43	3.51	2.87	2.23
Past due amounts as a percentage of shareholders equity			16.89	15.26	25.63	18.67	16.23

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Consolidated risk index(10)	2.01	2.42	3.00	2.36	2.23
<i>Operating Ratios</i>					
Operating expenses/operating revenue	52.92	52.58	60.04	53.28	51.15
Operating expenses/average total assets	2.57	2.30	2.76	2.46	2.50
<b>U.S. GAAP:</b>					
<i>Profitability and Performance</i>					
Net interest margin(11)	2.22	5.12	4.53	3.03	4.13%
Return on average total assets(12)	00%	0.80%	0.19%	1.44%	1.53%

- (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 weighted average of shares outstanding during the year.
- (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) Common shares outstanding are presented giving effect to the number of shares of the merged bank outstanding during the year. The aggregate number is calculated based on an exchange ratio of 3.135826 shares of Banco de Chile for each outstanding share of Banco de A. Edwards. Banco de A. Edwards had 7,381.41 million shares outstanding immediately prior to the merger. For the year ended December 31, 2000, the number of shares represents Banco de A. Edwards outstanding shares presented in terms of Banco de Chile shares using the exchange ratio discussed above. For the year ended December 31, 2001, Banco de Chile's and Banco de A. Edwards' shares have been combined as of March 27, 2001. For 2004, the weighted average of shares outstanding includes the effect of the repurchase of our shares during 2004.
- (5) Net interest revenue divided by average interest earning assets.
- (6) Net income (loss) divided by average total assets.
- (7) Net income (loss) divided by average shareholders' equity.
- (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 is not comparable to the consolidated risk index presented for preceding periods. See note 1 to our audited consolidated financial statements.
- (11) Net interest revenue under U.S. GAAP divided by average interest earning assets.
- (12) Net income under U.S. GAAP divided by average total assets.

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

Purchases and sales of foreign exchange which may be effected outside the Formal Exchange Market can be carried out in the *Mercado Cambiario Informal*, or the Informal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the observed exchange rate. On December 30, 2004 (the latest practicable date, as December 31, 2004 was a banking holiday in Chile), the average exchange rate in the Informal Exchange Market was Ch\$556.75 per U.S.\$1.00, or 0.55% lower than the published observed exchange rate of Ch\$559.83 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 2000, as reported by the Central Bank:

Year	Daily Observed Exchange Rate Ch\$ per U.S.\$(1)			
	Low(2)	High(2)	Average(3)	Period End(4)
2000	Ch\$ 501.04	Ch\$ 580.37	Ch\$ 539.49	Ch\$ 572.68
2001	557.13	716.62	634.94	656.20
2002	641.75	756.56	688.94	712.38
2003	593.10	758.21	691.40	599.42
2004	559.21	649.45	609.55	559.83
December 2005	559.66	597.27	576.17	559.83
January	557.40	586.18	574.12	586.18
February	563.22	585.40	573.58	577.52
March	573.55	591.69	586.48	586.45
April	572.75	588.95	580.46	582.87
May	570.83	583.59	578.31	580.20
June(5)	580.62	592.75	587.94	582.55

Source: Central Bank.

(1) Nominal amounts.

(2) Exchange rates are the actual low and high, on a day-by-day basis for each period.

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- (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, 2005 through June 21, 2005.

The observed exchange rate on June 21, 2005 was Ch\$582.55 = 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**

*We are involved in ongoing regulatory proceedings that could result in monetary fines.*

Beginning in September 2004, the Office of the Comptroller of the Currency, or OCC, and the Board of Governors of the Federal Reserve System by and through the Federal Reserve Bank of Atlanta, collectively, the Federal Reserve, conducted examinations of our New York and Miami branches, respectively, to evaluate, among other things, our compliance with the U.S. Bank Secrecy Act and other U.S. anti-money laundering requirements. As a result of these examinations, on February 1, 2005, we agreed to the issuance of a consent order with the OCC and a cease and desist order with the Federal Reserve. Pursuant to these orders, we have instituted an action plan which includes the maintenance of programs geared towards strengthening our compliance with the Bank Secrecy Act and United States anti-money laundering laws. Based on the press statement issued by the OCC at the time the consent order was entered into, civil money penalties and other sanction are possible, but the likelihood, extent and amount of such actions cannot be determined at this time. We cannot assure you that these examinations will not have an adverse effect on our financial condition and results of operations. See Item 8. Financial Information Legal Proceedings.

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

From December 31, 1999 to December 31, 2004, our aggregate loan portfolio, net of interbank loans (on an unconsolidated basis) grew by 115.4% in nominal terms and 82.4% in real terms to Ch\$6,659,839 million. During the same period, our consumer loan portfolio grew by 303.0% in nominal terms and 241.3% in real terms to Ch\$691,851 million, each calculated in accordance with the loan classification system of the Chilean Superintendency of Banks. On a combined basis (combining Banco de Chile and Banco de A. Edwards), from December 31, 1999 to December 31, 2004, the aggregate loan portfolio of both banks, net of interbank loans (on an unconsolidated basis) grew by 32.0% in nominal terms and 12.4% in real terms to Ch\$6,659,839 million. During the same period, on a combined basis, the consumer loan portfolio of both banks grew by 136.9% in nominal terms and 100.6% in real terms to Ch\$691,851 million, each calculated in accordance with the loan classification system of the Chilean Superintendency of Banks. Further expansion of our loan portfolio (particularly in the lower-middle to middle income consumer and small- to medium-sized corporate business areas) may expose us to a higher level of loan losses and require us to establish higher levels of allowances for loan losses.

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

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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, 1999 to December 31, 2004, the aggregate amount of loans outstanding in the Chilean banking system (on an unconsolidated basis) grew by 49.9% in nominal terms and 26.9% in real terms to Ch\$37,349,296 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.

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***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 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.

***We reported a negative cash flow from operating activities for the year ended December 31, 2003, which could have an adverse effect on our ability to operate in the future.***

During 2003, we reported a negative cash flow from our operations. During that year, we invested a large amount of cash in Central Bank securities in order to meet our technical reserve requirements as a result of higher current account and other demand deposits levels, resulting in negative operating cash flow. From time to time, we may need to invest large amounts of cash in order to meet regulatory requirements. Given current low interest rates, our customers tend to maintain deposits in checking accounts and in other demand deposits, which are included in the technical reserve requirement, which may also result in a need to invest more cash in highly liquid products such as Central Bank securities. Either or both of these needs may affect our cash flow from operations. We cannot assure you that we will not report a negative cash flow from operating activities in the future.

***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 lower-middle to middle income portions of the Chilean population and the small- and medium-sized companies have become the target markets of several banks, and competition with respect to these customers is likely to increase. As a result, net interest margins in these subsegments are likely to decline. Although we believe that demand for financial products and services from lower-middle to middle income individuals and from small- and medium-sized companies 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.



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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 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. See Item 4. Information on the Company Business Overview Competition.

The increase in competition within the Chilean banking industry in recent years had 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 creating Chile's largest bank. In 2003, Banco del Desarrollo merged with Banco Sudameris and, in 2004, Banco Security merged with Dresdner Banque Nationale de Paris. 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 small businesses and lower-middle income individuals could lead to higher levels of past due loans and subsequent charge-offs.***

Although we historically emphasized banking for large and medium-sized businesses, an increasing number of our corporate customers (approximately 9.4% of the value of the total loan portfolio at December 31, 2004) consist of small companies (those with annual sales of less than Ch\$300 million) and, to a lesser extent, individual customers (approximately 2.8% of the value of the total loan portfolio at December 31, 2004) in the lower income individuals subsegment (annual income between Ch\$1.8 million and Ch\$5.4 million). Our strategy includes increasing lending and providing other services to attract additional lower-middle income individuals and small companies as 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, 2004, Sociedad Administradora de la Obligacion Subordinada SAOS S.A., or SAOS, our affiliate, holds 42.0% 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.

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%. 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



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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 May 2, 2005, SAOS maintained a deficit balance with the Central Bank of Ch\$27,905 million, equivalent to 5.4% of our capital and reserves. As of the same date, Ch\$104,155 million would have represented 20.0% 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 69.9% of our operating revenue in 2004. 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 1.94% in 2002, 1.76% in 2003 and 1.07% in 2004. The average long-term interest rate based on the Chilean Central Bank's eight-year duration bonds was 4.54% in 2002, 3.96% in 2003 and 3.52% in 2004. See Item 5. Operating and Financial Review and Prospects Overview Inflation and Item 5. Operating and Financial Review and Prospects 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 December 31, 2004, LQ Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco S.A., beneficially owned approximately 51.57% of our outstanding voting rights. These principal shareholders are in a position to elect a majority of the members of our

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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.

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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.*

We merged with Banco de A. Edwards, a Chilean Bank, effective as of January 1, 2002. Prior to the merger, there was no public market for our shares outside Chile or for our 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 2004, a daily average of 6,237 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, 2004, approximately 12.0% of our outstanding shares are held by shareholders other than our principal shareholders, including SM-Chile and SAOS.

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

*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.



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*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, 1998 to December 31, 2004, the value of the U.S. dollar relative to the Chilean peso increased approximately 0.24%, as compared to an 8.2% decrease in value in the period from December 31, 1994 to December 31, 1998.

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.





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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 *Instituto Nacional de Estadísticas*, or the Chilean National Institute of Statistics) during the last five years ended December 31, 2004 and the first five months of 2005 was:

<u>Year</u>	<u>Inflation (Consumer Price Index)</u>
2000	4.5%
2001	2.6
2002	2.8
2003	1.1
2004	2.4
2005 (through May 31)	1.4%

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, in particular, 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 three representative offices located in Buenos Aires, Sao Paulo and Mexico City) 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.

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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.

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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 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 Item 3. Key Information Risk Factors.

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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**

Our bank was 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 large corporations, small and mid-sized businesses and individuals.

Our legal name is Banco de Chile, and we are organized as a banking corporation under the laws of the Republic 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) 653-1111 and our website is [www.bancochile.cl](http://www.bancochile.cl). Our registered agent in the United States is Banco de Chile, New York Branch. Its office is located at 535 Madison Avenue, 9th Floor, New York, New York 10022; its telephone number is +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 six principal business areas:

large corporations;

middle market companies;

international banking;

retail banking;

treasury and money market operations; and

operations through subsidiaries.

Our corporate banking services 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. We also provide a wide range of treasury and risk management products to our corporate customers, and 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.

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We offer international banking services through our branches in New York and Miami, our trade services subsidiary in Hong Kong, representative offices in Buenos Aires, Sao Paulo and Mexico City 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 and collection and sales services.

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As of December 31, 2004, we had:

total assets of Ch\$9,649,203 million (U.S.\$17,236 million);

loans outstanding of Ch\$6,888,911 million (U.S.\$12,305 million);

deposits of Ch\$5,785,727 million (U.S.\$10,335 million); and

shareholders' equity including net income of Ch\$674,533 million (U.S.\$1,205 million).

According to information published by the Chilean Superintendency of Banks, as of December 31, 2004, we were the second largest private bank in Chile in terms of total loans (excluding interbank loans) with a market share of 17.8%.

We are headquartered in Santiago, Chile and, as of December 31, 2004, had 9,365 employees and delivered financial products and services through a nationwide network of 224 branches and 1,001 ATMs that form part of a network of 3,181 ATMs operated by Redbank S.A., a company owned by us and 13 other private sector financial institutions.

## **History**

We were established in 1893 as a result of the merger of Banco Nacional de Chile, Banco Agrícola and Banco de Valparaíso, which created the largest privately held bank in Chile. We believe that we remained the largest private bank in Chile until mid-2002. 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. During 2002, our shares were also listed on the Latin American Stock Exchange of the Madrid Stock Exchange, or Latibex, and the London Stock Exchange, or LSE.



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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\$15,103 million and Ch\$31,973 million, respectively. No further costs related to the merger have been incurred since 2002.

### *Neos Project*

In 2003, we developed the groundwork for Neos, our technological innovation platform project which was established to improve the quality of our service and increase efficiency. During 2004, we concluded the initial phases of Neos, which consisted of implementing a new management control platform

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which will support internal administration, a customer relationship management system which will initially manage client service requirements and global client information and a new accounting system. From 2005 to 2007, we will launch more sophisticated customer relationship management systems and a core banking system that will manage our main assets and liabilities.

### ***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\$1,049,198 million, or U.S.\$1,750 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 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 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%. 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

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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 May 2, 2005, SAOS maintained a deficit balance with the Central Bank of Ch\$27,905 million, equivalent to 5.4% of our capital and reserves. As of the same date, Ch\$104,155 million would have represented 20.0% of our capital and reserves. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Banking Industry An affiliate of ours may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends.

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, 2002, 2003 and 2004:

	For the Year Ended December 31,		
	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)		
Computer equipment	Ch\$ 7,844	Ch\$ 3,503	Ch\$ 6,849
Furniture, machinery and installations	3,585	2,560	4,635
Real estate	662	608	397
Vehicles	329	304	429
Subtotal	12,420	6,975	12,310
Software	3,352	4,518	7,544
Total	Ch\$ 15,772	Ch\$ 11,493	Ch\$ 19,854

Our budget for capital expenditures in 2005 is Ch\$42,594 million, substantially all of which will be used in Chile. Capital expenditures planned for 2005 consist mainly of expenditures for information technology, including the implementation of Neos, a technological innovation platform project that we believe will improve our customer service and increase efficiency, and capital expenditures related to disbursements necessary to maintain and improve our existing branch office infrastructure and other maintenance required in the ordinary course of our business.

**BUSINESS OVERVIEW**

**Business Strategy**

Our long-term strategy is to maintain our position as a leading bank in Chile, providing a broad range of financial products and services to large corporations, small and mid-sized companies and individuals nationwide. As part of this strategy, we operate under a multi-brand approach in order to target the different market segments, taking advantage of our well positioned brand names: Banco de Chile, Banco de A. Edwards, Banchile, Banco Credichile and Leasing Andino. Our strategy is focused on:

delivering superior customer service that responds to the specific needs of our customers in each market segment;

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expanding our customer base in Chile by enlarging our distribution network and strengthening our electronic channels;

enhancing profitability by increasing revenues from fee-based services through the development of new services and active cross-selling of such services to our customers;

continuing to focus on cost-control measures and otherwise enhancing productivity to improve our existing efficiency standards; and

further developing the international products and services that we offer to our customers.

The key components of our strategy are described below.

### ***Deliver Superior Customer Service and Expand our Customer Base***

Our banking strategy is focused on developing long-term relationships with our customers and expanding our customer base by emphasizing customer service and providing a broad range of financial products and services. In order to provide our customers with improved customer service 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. We will also support our enlarged customer base by expanding our branch and ATM networks to locations where we have little or no presence.

We expect that our corporate and individual customers will require more comprehensive credit and non-credit financial services than in the past and our customer service strategy includes the following:

To expand our high- and middle-income individual customer base, we intend to (1) market a broad range of products and services to high- and middle-income individuals, (2) cross-sell products and services such as mutual funds, lease financing, factoring, insurance and securities brokerage services, (3) develop new services targeted to the specific needs of these customers, (4) develop programs to increase quality of service, (5) develop public relations programs to gain customer loyalty and (6) develop commercial agreements and strategic alliances.

To increase our lower to middle-income individual customer base, we intend to (1) develop new products and services at competitive prices, (2) strengthen our distribution channels, (3) overhaul the branches that service these clients and (4) reposition our retail banking image by using the Banco Credichile brand name.

In the middle market companies business area, we intend to increase our lending activities and offerings of fee-based services, such as electronic banking, import-export financial services, financial advisory services and cash management services.

In the large corporations business area, we are focused on increasing offerings of specialized lending products, treasury and cash management services.

### ***Expand Fee-Based Services***

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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 grow over the last three years and was Ch\$126,842 million in 2004, an increase of 29.1% from Ch\$98,251 million in 2003. We seek to continue to grow fee revenue by developing new services and by cross-selling these services to our base of existing customers. In our corporate business, we intend to actively market fee-based services such as

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electronic banking, receivables collection, payroll services, supplier payments, investment advisory services and cash management. In our retail banking business area, we seek to increase revenues from fee-based services such as telephone and electronic banking, ATMs, general checking services, credit cards, mutual funds, securities brokerage and insurance brokerage.

### ***Maintain Focus on Operating Efficiencies***

In 2004, our consolidated operating expenses represented approximately 51.15% of our operating revenue. As the Chilean banking sector continues to grow, we believe that a low-cost structure will become increasingly important to compete profitably.

We have invested heavily in technology, including software, during recent years (approximately Ch\$11,196 million in 2002, Ch\$8,021 million in 2003 and Ch\$14,393 million in 2004) 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, and in 2003 and 2004, capital expenditures associated with Neos amounted to Ch\$2,943 and Ch\$5,070 million, respectively. We estimate that our Neos related capital expenditures will amount to Ch\$9,437 million in 2005.

### ***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, one of our traditional areas of international activity. In order to strengthen our relationships with Chilean businesses engaged in international trade, we intend to take advantage of our New York and Miami branches, in addition to our trade services subsidiary in Hong Kong.

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.

### **Ownership Structure**

The following diagram shows ownership structure at December 31, 2004:



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**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 will last for 24 months.

The Central Bank authorized the program on June 2, 2003, subject to the following conditions: (i) we must request prior approval of the offering price from the Central Bank when we decide to resell any shares acquired under the program, and (ii) 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:

We may repurchase up to 1% of our issued shares directly in the Chilean stock exchanges during a 12-month period, without being required to conduct a tender offer;

The maximum percentage of shares that we may repurchase cannot exceed 3% of our paid-in capital;

The minimum price that we may pay for the shares is 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 is 15% higher than that average;

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

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

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

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\$35.10, 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 which 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, are being offered in a tender offer to SM-Chile's series A, B and D shareholders which began on June 23, 2005 and will close on July 22, 2005. Shares which are not resold to our shareholders or SM-Chile's series A, B or D shareholders in the preemptive offering or tender offer, as applicable, will be sold in a public offering at a date and price to be determined by our board of directors. This date may not be set after January 22, 2006, otherwise, a new rights offering must be

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conducted. The new offering may not extend beyond April 26, 2006 and the price may not be set below UF 0.001839 per share, the minimum price set by the Central Bank.

**Table of Contents****Principal Business Activities**

We are a full-service financial institution providing, directly and indirectly through our subsidiaries and affiliates, a wide variety of credit and non-credit products and services to all segments of the Chilean financial market. The following diagram illustrates, in summary form, our principal business areas, which operate through us 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, 2004, allocated among our principal business areas:

	Loans		Consolidated net income before tax (1)
	(in millions of constant Ch\$ as of December 31, 2004, except for percentages)		
Large corporations	Ch\$ 2,684,305	39.0%	Ch\$ 38,794
Middle market companies	1,690,732	24.5	36,537
International banking	294,091	4.3	6,756
Retail banking	2,071,016	30.0	49,008
Treasury and money market operations	12,507	0.2	25,091
Operations through subsidiaries	136,260	2.0	28,181
Other (adjustments and eliminations)			(13,390)
<b>Total</b>	<b>Ch\$ 6,888,911</b>	<b>100.0%</b>	<b>Ch\$ 170,977</b>

- (1) Consolidated net income before tax consists of the sum of operating revenues and other income and expenses, net, and the deduction for operating expenses 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 eight 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 areas:

	<b>For the Year Ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>		
Large corporations	Ch\$ 93,867	Ch\$ 90,493	Ch\$ 79,712
Middle market companies	113,797	108,647	112,267
International banking	2,680	16,786	12,217
Retail banking	147,639	140,725	166,877
Treasury and money market operations	26,024	23,337	29,081
Operations through subsidiaries	42,832	54,223	65,693
Other (adjustments and eliminations)	819	(7,077)	3,976
<b>Total</b>	<b>Ch\$ 427,658</b>	<b>Ch\$ 427,134</b>	<b>Ch\$ 469,823</b>

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

	<b>For the Year Ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>		
Chile	Ch\$ 426,509	Ch\$ 412,104	Ch\$ 458,796
Banking operations	383,677	357,881	393,103
Operations through subsidiaries	42,832	54,223	65,693
Foreign branch operations	1,149	15,030	11,027
New York	(1,510)	12,130	8,673
Miami	2,659	2,900	2,354
<b>Total</b>	<b>Ch\$ 427,658</b>	<b>Ch\$ 427,134</b>	<b>Ch\$ 469,823</b>

**Large Corporations**

In general, our large corporations business area services domestic companies with annual sales in excess of Ch\$12,000 million, multinational corporations, financial institutions, governmental entities and companies affiliated with Chile's largest conglomerates (regardless of size). This business area offers these companies a broad range of products and services tailored to their specific needs. These services include deposit-taking and lending in both pesos and foreign currency, trade and project financing and various non-credit services, such as collection, supplier payments and payroll management. In addition, our large corporations business area offers a broad range of banking products and services including working capital financing, lines of credit, commercial loans, leasing, corporate financial services, foreign trade financing, letters of credit in domestic and foreign currencies, mortgage loans, payment and asset management services, checking accounts and time deposits, and, through our subsidiaries, brokerage, mutual funds and investment fund management services. All of our branches (except the Credichile branches) provide services to our large corporations business area customers directly and indirectly.

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Our large corporate customers are engaged in a wide spectrum of industry sectors. As of December 31, 2004, this business area had primarily made loans to customers engaged in:

financial services (approximately 34.7% of all loans made by this business area);

construction (approximately 15.6% of loans made by this business area);

manufacturing (approximately 15.0% of all loans made by this business area);

trade (approximately 12.4% of all loans made by this business area); and

agriculture (approximately 7.6% of all loans made by this business area).

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At December 31, 2004, we had approximately 1,918 large corporate debtors. Loans to large corporations totaled approximately Ch\$2,684,305 million at December 31, 2004, representing 39.0% of our total loans at that date. Our large corporations business area accounted for Ch\$38,794 million of our consolidated net income before tax for the year ended December 31, 2004.

The following table sets forth the composition of our portfolio of loans to large corporations as of December 31, 2004

	<b>As of December 31, 2004</b>	
	<b>(in millions of constant Ch\$ as of December 31, 2004, except for percentages)</b>	
Commercial loans	Ch\$ 1,734,212	64.6%
Foreign trade loans	349,155	13.0
Contingent loans	310,470	11.6
Leasing contracts	147,509	5.5
Mortgage loans	42,006	1.6
Consumer loans	326	
Other loans	100,627	3.7
	<hr/>	<hr/>
<b>Total</b>	<b>Ch\$ 2,684,305</b>	<b>100.0%</b>
	<hr/>	<hr/>

Our large corporations business area's loan portfolio consists principally of unsecured loans with maturities between one and six months and of medium- and long-term loans to finance fixed assets, investment projects and infrastructure projects. In addition, our large corporations business area issues contingent credit obligations in the form of letters of credit, bank guarantees and similar obligations in support of the operations of our large corporate customers. See Selected Statistical Information.

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 generating fee services, such as 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.

We are party to approximately 3,430 payment service contracts and approximately 1,020 collection service contracts with large corporate customers. Under these payment contracts, we provide large corporate customers with a system to manage their accounts and make payments to suppliers, pension funds and employees, thereby reducing administrative costs. 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.

***Middle Market Companies***

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We serve the financing needs of small and medium-size companies through our middle market companies business area. We generally define middle market companies as those with annual sales of between Ch\$300 million and Ch\$12,000 million and small or emerging companies as those with annual sales of between Ch\$45 million and Ch\$300 million. As of December 31, 2004, our middle market companies business area had approximately 68,346 checking account holders, of which approximately 74% are small or emerging companies. In terms of loans amounts, however, approximately 61.6% of the middle market companies business area's total loan portfolio represents loans to medium-size companies.

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Our middle market companies business area offers its customers a broad range of financial products, including project financing, working capital financing, mortgage loans and debt rescheduling, as well as other alternatives such as leasing operations, factoring, mutual funds, insurance and securities brokerage services and collection services (through our Banchile subsidiaries). We also offer our clients full advisory services aimed at facilitating foreign trade, as well as comprehensive financing and service alternatives.

We have developed a set of services designed to facilitate and optimize the operational and financial management of small and medium size companies. These services include payment services (such as employee compensation, taxes and employee benefits), payments to suppliers and automated bill payments. We provide most of these services through remote service channels, such as the internet and, as of December 31, 2004, delivered such services to approximately 27,452 customers. We also provide account receipts and instrument collection services through electronic means. All of these products and services are available through our nationwide branch network.

Through our subsidiaries, our middle market companies business area offers our customers a full range of financial advisory, stock brokerage, mutual fund management and general and life insurance brokerage services.

The following table sets forth the composition of our portfolio of loans to middle market companies as of December 31, 2004:

	<b>As of December 31, 2004</b>	
	<b>(in millions of constant Ch\$ as of December 31, 2004, except for percentages)</b>	
Commercial loans	Ch\$ 900,628	53.3%
Mortgage loans	242,837	14.4
Leasing contracts	191,487	11.3
Foreign trade loans	134,052	7.9
Contingent loans	129,468	7.7
Consumer loans	31,822	1.9
Other loans	60,438	3.5
	<hr/>	<hr/>
<b>Total</b>	<b>Ch\$ 1,690,732</b>	<b>100.0%</b>
	<hr/>	<hr/>

Our middle market companies business area's loan portfolio consists primarily of short- and long-term commercial loans and mortgage loans. At December 31, 2004, this business area had primarily made loans to customers engaged in:

trade (23.5% of loans made by this business area);

financial services (18.9% of loans made by this business area);

agriculture (17.9% of loans made by this business area);



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manufacturing (15.0% of loans made by this business area);

transport and storage (6.8% of loans made by this business area); and

construction (6.1% of loans made by this business area).

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At December 31, 2004, we had Ch\$1,690,732 million of outstanding loans to small and medium-size companies, representing 24.5% of our total loan portfolio at that date. Small and medium-size banking clients accounted for approximately Ch\$36,537 million of our consolidated net income before tax for the year ended December 31, 2004.

*Commercial Loans.* Our middle market companies business area'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. At December 31, 2004, our middle market companies business area had outstanding commercial loans of Ch\$900,628 million, representing 53.3% of the middle market companies business area's total loans and 13.1% of our total loans at that date.

*Mortgage Loans.* Our middle market companies business area's commercial mortgage loans are denominated in UF and generally have maturities of between five and 30 years. At December 31, 2004, this business area had granted mortgage loans outstanding of approximately Ch\$242,837 million, representing 14.4% of the middle market companies business area's total loans and 3.5% of our total loans at such date.

## ***International Banking***

Through our international banking business area, we offer a range of international services, principally import and export financing, letters of credit, guarantees and other forms of credit support, as well as currency swaps, banking services and treasury services for our corporate clients in Chile and abroad.

Our international banking business area has two main lines of business: foreign currency products and management of our international network. This business area deals with all banking products that involve foreign currency, including those related to foreign trade. Our international banking business area designs foreign currency products, educates our account officer sales force about our foreign currency products, monitors our market share participation and promotes the use of our foreign currency products. Included in this business area 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 area does not, however, have credit granting authority for these purposes. Instead, the area participates in a team effort with the account officers who establish credit limits, and our international banking trade specialists interact directly with our customers, ensuring that the price they pay for our services is adequate and that the quality of the services provided meets pre-established levels.

As of December 31, 2004, we had Ch\$599,051 million in foreign trade loans, representing 8.7% of our total loans as of that date, and Ch\$143,182 million in letters of credit and other contingent obligations related to foreign trade operations, representing 2.1% of our total loans as of that date.

Our international banking business area also manages our international network. This network is made up of branches in New York and Miami, our trade services subsidiary in Hong Kong, three representative offices (located in Mexico City, Sao Paulo and Buenos Aires) and approximately 600 correspondent banks. We have established credit relations with approximately 200 correspondent banks and account relationships with approximately 45 correspondent banks.



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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 on an international basis;

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 business opportunities for our Chilean customers seeking to expand to new markets abroad.

The following table sets forth, as of December 31, 2004, the composition of our portfolio of loans originated through our New York and Miami branches:

	<b>As of December 31, 2004</b>	
	<b>New York Branch</b>	<b>Miami Branch</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>	
Foreign trade loans	Ch\$ 37,862	Ch\$ 51,316
Commercial loans	67,311	18,844
Interbank loans	1,541	1,153
Contingent loans	4,089	6,512
<b>Total</b>	<b>Ch\$ 110,803</b>	<b>Ch\$ 77,825</b>

The following table sets forth, as of December 31, 2004, the sources of funding for our New York and Miami branches:

	<b>As of December 31, 2004</b>	
	<b>New York Branch</b>	<b>Miami Branch</b>

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	(in millions of constant Ch\$ as of December 31, 2004, except for percentages)			
Current accounts	Ch\$ 145,696	32.0%	Ch\$ 25,021	14.6%
Certificates of deposits and time deposits	198,530	43.6	131,399	76.9
Other demand deposits	68,057	14.9	7,787	4.6
Contingent liabilities	4,089	0.9	6,512	3.8
Foreign borrowings	35,627	7.8	10	0.0
Other liabilities	3,612	0.8	164	0.1
Total	Ch\$ 455,611	100.0%	Ch\$ 170,893	100.0%

*New York Branch.* Our wholly owned 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. At December 31, 2004, the New York branch had total assets of Ch\$477,930 million, including a loan portfolio of Ch\$110,803 million, representing 1.6% of our total loan portfolio. Of the New York branch's loans, Ch\$67,311 million were commercial loans, mostly to large corporations in Chile and in other Latin American countries. The remaining Ch\$43,492 million were principally foreign trade loans, amounting to Ch\$37,862 million, and contingent loans (letters of credit and stand-by letters of credit), amounting to Ch\$4,089 million. In 2004, our New York branch recognized net income of Ch\$3,303 million.

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Investments in bonds and foreign securities were Ch\$255,896 million at December 31, 2004, most of which consisted of private sector bonds. As of December 31, 2004, the New York branch did not have past due loans. The New York branch's allowances for loan losses totaled Ch\$758 million, which represented 0.7% of the branch's loan portfolio at December 31, 2004. In addition, our New York branch had Ch\$193 million in country risk allowances. 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 in Santiago, Chile. See Item 8. 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 of Ch\$305,343 million, time deposits of Ch\$106,939 million and foreign borrowings of Ch\$35,627 million.

As of December 31, 2004, the New York branch had capital of Ch\$22,319 million (including net income of Ch\$3,303 million for the year).

*Miami Branch.* Our wholly owned Miami branch was opened in 1995 as an agency and in 2004 expanded its banking operations from that of an agency to 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. At December 31, 2004, our Miami branch had total assets of Ch\$176,516 million, a loan portfolio of Ch\$77,825 million representing 1.1% of our total loan portfolio, and an investment portfolio of Ch\$61,241 million. Our Miami branch's loan portfolio at December 31, 2004 consisted primarily of Ch\$51,316 million of foreign trade loans and Ch\$18,844 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\$94,128 million), time deposits (Ch\$70,080 million) and contingent liabilities (Ch\$6,512 million). In 2004, our Miami branch recognized net income of Ch\$491 million.

At December 31, 2004, the Miami branch did not have past due loans. Allowances for loan losses amounted to Ch\$582 million, not including the Ch\$278 million in country risk allowances. 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 in Santiago, Chile. See Item 8. Financial Information Legal Proceedings for a description of certain proceedings involving the Miami branch.

*Representative offices.* The principal function of our representative offices in Argentina, Brazil and Mexico is 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 with or operate directly within these countries.

***Retail Banking***

Our retail banking business area serves the needs of retail customers from high- to lower-middle income individuals, with service being segmented according to the client's income. At December 31, 2004, loans made by this business area represented 30.0% of our total loan portfolio. Approximately Ch\$49,008 million of our net income before tax for the year ended December 31, 2004 was accounted for by our retail banking business area.

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The following table sets forth the composition of our retail banking business area's loan portfolio as of December 31, 2004:

	<u>As of December 31, 2004</u>	
	(in millions of constant Ch\$ as of December 31, 2004, except for percentages)	
Mortgage loans	Ch\$ 535,039	25.8%
Consumer loans	659,703	31.9
Commercial loans	146,293	7.1
Leasing contracts	4,853	0.2
Contingent loans	1,482	0.1
Foreign trade loans	82	0.0
Other loans(1)	723,564	34.9
	<hr/>	<hr/>
<b>Total</b>	<b>Ch\$ 2,071,016</b>	<b>100.0%</b>
	<hr/>	<hr/>

(1) Other loans include primarily mortgage loans financed by our general borrowings and lines of credit.

*High- and Middle-Income Individuals.* We define high- and middle-income individuals as those with annual income in excess of Ch\$5.4 million (in 2004, per capita annual income in Chile was approximately Ch\$2.6 million).

Our high- and middle-income individuals subsegment offers our customers a broad range of retail banking products, including residential mortgage loans, lines of credit and other consumer loans, credit cards, checking accounts, savings accounts and time deposits. We also offer mutual funds and brokerage services to individuals as described under Operations through Subsidiaries below. At December 31, 2004, we had outstanding extensions of credit to approximately 269,758 high- and middle-income individuals, including approximately 35,087 residential loans, 237,630 lines of credit, 118,365 other consumer loans and 251,195 credit card accounts. At the same date, this area maintained 321,714 checking accounts, 145,712 savings accounts and 65,026 time deposits.

We provide service to high- and middle-income individual customers through a network of 171 branches including four specialized private banking centers, 20 specialized transaction centers and our ATM network. Since 1994, we have offered a nationwide phone-banking service that permits our high- and middle-income individual customers to receive balances and other account-related information, transfer funds between accounts and effect a wide variety of credit transactions. In 1997, we launched a full 24-hour banking service under the brand *TodaHora* and our homepage on the internet to better serve our high- and middle-income individual customers.

**Installment Loans.** Our consumer installment loans to high- and middle-income 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, 2004, we had Ch\$347,165 million in installment loans, which accounted for 52.6% of the retail banking business area's consumer loans. A majority of installment loans are denominated in pesos and are payable monthly.

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Mortgage Loans. At December 31, 2004, there were outstanding mortgage loans of Ch\$484,683 million to high- and middle-income individuals, which represented 23.4% of the retail banking business area's total loans and 7.0% of our total loan portfolio. A feature of our mortgage loans to individuals is that mortgaged property typically secures all of a mortgagor's credit with us, including credit card and other loans.



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Our residential mortgage loans generally have maturities between five and 30 years and are generally denominated in UF. To reduce our exposure to interest rate fluctuations and inflation with respect to our residential loan portfolio, a majority 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.

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* is a product that is tradable among banks, investment funds and insurance companies. *Mutuos Hipotecarios* offer the opportunity to finance 80% 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.

At December 31, 2004, 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 14.8% of the residential mortgage loans in the Chilean banking system and approximately 20.1% 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 41 affinity card groups (of which 30 are associated with our co-branded programs).

As of December 31, 2004, we had 273,256 valid credit card accounts, with 411,260 credit cards in the high-middle income individuals subsegment. Total charges on our credit cards during 2004 amounted to Ch\$405,795 million, with Ch\$351,117 million corresponding to purchases and service payments in Chile and abroad and Ch\$54,678 million corresponding to cash advances (both within Chile and abroad). These charge volumes represent a 28.0% market share in terms of volume of use of bank credit cards issued in Chile.

As of December 31, 2004, our credit card loans in the high- and middle-income individuals subsegment amounted to Ch\$71,873 million and represented 10.9% of our retail banking business area'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, 2004, Transbank had 18 shareholders and Nexus had seven shareholders, all of which are banks. As of December 31, 2004, our equity ownership in Transbank was 17.4% and our equity interest in Nexus was 25.8%.

We believe that the Chilean market for credit cards has a high potential for growth, especially among consumers in the middle-income subsegment, 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.

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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

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debit cards different names (*Chilecard Normal, 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, 2004, we had a 30.4% market share of debit card transactions, with more than 12 million transactions performed in 2004.

Lines of Credit. We had 237,630 approved lines of credit to customers in our high- and middle-income individuals subsegment as of December 31, 2004 and outstanding advances to 173,139 individuals totaling Ch\$112,593 million, or 5.4% of the retail banking business area 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 retail checking accounts 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.

At December 31, 2004, the retail banking business area administered 324,537 checking accounts for approximately 316,200 customers with an aggregate balance of Ch\$397,315 million. At such date, our checking account balances totaled approximately Ch\$1,424,569 million and represented 15.9% of our total liabilities.

*Lower Income Individuals - Banco Credichile ( Credichile ).* We offer products and services to the lower-middle to middle income portions of the Chilean population through Credichile, which we established specifically to serve the needs of customers in this market subsegment. Credichile represents a distinct delivery channel for our products and services in this market subsegment, maintaining a separate brand and network of 52 Credichile branches and nine other credit centers. 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. At December 31, 2004, Credichile had approximately 151,923 customers and total loans outstanding of Ch\$189,907 million, representing 2.8% of our total loan portfolio at that date.

Improved economic conditions in Chile over the last decade and the growth of the Chilean middle class has resulted in increased demand for consumer credit by lower-middle income individuals, whom we classify as persons with annual income between Ch\$1.8 million and Ch\$5.4 million. Many of these individuals have not had prior exposure to banking products or services. Credichile focuses on developing and marketing innovative segment-oriented products to satisfy the needs of individuals in this subsegment while introducing them to the banking system and complements the services offered in our other business areas, especially our large corporations business area, by offering services to employers such as direct deposit capabilities that engender the use of our services by employees.



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The Chilean Superintendency of Banks requires greater allowances for loan losses with lower credit classifications, such as those of Credichile. Credichile employs its own credit scoring system and other criteria to evaluate and monitor credit risk. 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. Credichile uses rigorous procedures for collection of past due loans. Socofin S.A., our specialized collection subsidiary, provides collection services. We believe that we have the necessary procedures and infrastructure in place to manage the exposure to a higher degree of credit risk that Credichile presents. These procedures allow us to take advantage of the higher growth and earnings potential of this subsegment of the banking industry 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.** Credichile provides short- to medium-term consumer loans and credit card services. As of December 31, 2003, Credichile had approximately 131,767 consumer loans that totaled Ch\$123,951 million outstanding at December 31, 2004. As of the same date, Credichile customers had 40,070 valid credit card accounts, with loans of Ch\$7,448 million and total charges of Ch\$7,400 million.

**Bancuenta.** Credichile introduced Bancuenta as a basic deposit product that provides consumers flexibility and ease of use, and 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 Credichile accounts through a network of 3,181 ATMs available through the Redbanc system.

At December 31, 2004, Credichile had approximately 454,028 Bancuenta accounts. Bancuenta account holders pay an annual fee, a fee each time the account holder draws on the Bancuenta line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a Bancuenta account are withdrawn automatically on a monthly basis from funds available in the account. Bancuenta allows us to offer our large corporate customers the ability to pay their employees by direct deposit of funds into the individual employee's account at Credichile. We believe this product can lead to stronger long-term relationships with our large and middle market corporate customers and with the employees of such customers.

### ***Treasury and Money Market Operations***

Our treasury and money market operations business area 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.

In addition to providing services, our treasury and money market business area is focused on managing currency, interest rate and maturity gaps, ensuring adequate liquidity levels and managing our investment portfolio. This business area 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 area is also responsible for the issuance of short- and long-term bonds denominated in pesos and UF and the issuance of long-term subordinated bonds.

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The treasury and money market business area 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 business area continually monitors the funding costs of the local financial system, comparing them with our costs.

Our investment portfolio as of December 31, 2004 amounted to Ch\$1,607,273 million, of which 69.1% corresponded to securities issued by the Central Bank and the Chilean Government, 10.4% corresponded to securities from foreign issuers, 13.4% corresponded to securities issued by local financial institutions and 7.1% corresponded to 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 at December 31, 2004:

	<b>As of or for the year ended December 31, 2004</b>		
	<b>Assets</b>	<b>Shareholders Equity</b>	<b>Net Income (loss)</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>		
Banchile Corredores de Bolsa S.A.	Ch\$ 307,270	Ch\$ 34,956	Ch\$ 9,803
Banchile Administradora General de Fondos S.A.	15,424	13,992	9,081
Banchile Factoring S.A.	123,818	9,305	2,109
Banchile Asesoría Financiera S.A.	2,275	1,888	1,756
Banchile Corredores de Seguros Ltda	2,389	1,959	671
Banchile Securitizadora S.A.	8,746	620	59
Promarket S.A.	681	331	46
Socofin S.A.	4,100	931	137
Banchile Trade Services Limited	Ch\$ 7	Ch\$ (1)	Ch\$ (7)
<b>Total</b>	<b>Ch\$ 464,710</b>	<b>Ch\$ 63,981</b>	<b>Ch\$ 23,655</b>

The following table sets out our ownership interest in our financial services subsidiaries at December 31, 2004:

**Ownership**

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	<u>Direct</u>	<u>Indirect</u>
Banchile Administradora General de Fondos S.A.	99.98%	0.02%
Banchile Corredores de Seguros Limitada	99.75	0.25
Banchile Corredores de Bolsa S.A.	99.68	0.32
Banchile Factoring S.A.	99.52	0.48
Banchile Asesoría Financiera S.A.	99.94	
Banchile Securitizadora S.A.	99.00	1.00
Promarket S.A.	99.00	1.00
Socofin S.A.	99.00	1.00
Banchile Trade Services Limited	100.00	

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

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*Securities Brokerage Services.* We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores is registered with the Chilean Superintendency of Securities and Insurance, the regulator of Chilean open stock corporations, as a securities broker and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores 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, 2004, Banchile Corredores had an aggregate trading volume on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange of approximately Ch\$4,816,245 million. At December 31, 2004, Banchile Corredores had equity of Ch\$34,956 million, and for the year ended December 31, 2004, had net income of Ch\$9,803 million, which represented 6.4% 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, 2004, according to data prepared by the Chilean Superintendency of Securities and Insurance, Banchile Administradora General de Fondos was the largest mutual fund manager in Chile, managing approximately 26.7% of all Chilean mutual funds assets. At December 31, 2004, Banchile Administradora General de Fondos operated 40 mutual funds and managed Ch\$1,766,116 million in net assets on behalf of 152,656 corporate and individual participants.

The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos at December 31, 2004:

<u>Name of Fund</u>	<u>Type of Fund</u>	<u>Net Asset Value</u>	
		<u>As of December 31, 2004</u>	
		<u>(in millions of constant Ch\$)</u>	
Utilidades	Fixed income (short/medium term)	Ch\$	197,602
Liquidez 2000	Fixed income (short term)		160,264
Deposito XXI	Fixed income (medium/long term)		270,136
Corporativo	Fixed income (short term)		250,799
Estrategico	Fixed income (medium/long term)		210,472
Corporate Dollar Fund	Fixed income (short term)		105,589
Horizonte	Fixed income (medium/long term)		95,921
Patrimonial	Fixed income (short term)		55,538
Performance	Fixed income (short/medium term)		37,266
Banchile Acciones	Equity		60,283
Ahorro	Fixed income (medium/long term)		72,404
Alianza	Debt/Equity (medium/long term)		40,649
Disponible	Fixed income (short term)		16,852
Crecimiento	Fixed income (short term)		29,117
Inversion	Fixed income (medium/long term)		33,351
Operacional	Fixed income (short term)		29,090
Capitalisa Accionario	Equity		8,467
Renta Futura	Fixed income (short/medium term)		6,838
Euro Money Market Fund	Fixed income (short term)		7,390
Emerging Fund	Debt/Equity		4,162
Latin America Fund	Debt/Equity		6,952
Cobertura	Fixed income (medium/long term)		3,176
Dollar Fund	Fixed income (medium/long term)		2,114
U.S. Fund	Debt/Equity		2,024
Global Fund	Debt/Equity		1,204
U.S. High Technology Fund	Debt/Equity		841



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Asia Fund	Debt/Equity	3,332
Europe Fund	Debt/Equity	998
Technology Fund	Debt/Equity	788
U.S. Stability Fund	Debt/Equity	586
International Bond	Fixed income (medium/long term)	370
Euro Technology Fund	Debt/Equity	458
Medical & Health-Care Fund	Debt/Equity	390
U.S. Bond Fund	Fixed income (medium/long term)	178
Telecommunication Fund	Debt/Equity	376
Emerging Dollar	Debt/Equity	2,872
Global Dollar	Debt/Equity	1,965
US Dollar Fund	Debt/Equity	817
Bonsai 106 Garantizado	Fixed income (medium/long term)	21,457
Garantizado Plus	Fixed income (medium/long term)	23,025
<b>Total</b>		<b>Ch\$ 1,766,113</b>

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At December 31, 2004, Banchile Administradora General de Fondos had equity of Ch\$13,992 million and for the year ended December 31, 2004, had net income of Ch\$9,081 million, which represented 5.9% of our consolidated net income for such period.

*Factoring Services.* We provide factoring services to our customers through Banchile Factoring S.A. Through this service, we purchase our customers' outstanding debt portfolios, such as bills, notes, promissory notes or contracts, advancing them the cash flows involved and performing the collection of the related instruments. As of December 31, 2004, Banchile Factoring had net income of Ch\$2,109 million, with a 22.7% return on shareholders' equity and an estimated 17.4% market share in Chile's factoring industry.

*Financial Advisory Services.* We provide financial advisory and other investment banking services to our customers through Banchile Asesoría Financiera S.A. The services offered by Banchile Asesoría Financiera are directed primarily to our corporate customers and include advisory services regarding mergers and acquisitions, restructuring, project financing and strategic alliances. As of December 31, 2004, Banchile Asesoría Financiera had shareholders' equity of Ch\$1,888 million, and for the year ended December 31, 2004, had net income of Ch\$1,756 million.

*Insurance Brokerage.* We provide insurance brokerage services to our customers through Banchile Corredores de Seguros Limitada. At the beginning of 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, 2004, Banchile Corredores de Seguros had shareholders' equity of Ch\$1,959 million, and for the year ended December 31, 2004, had net income of Ch\$671 million. Banchile Corredores de Seguros had a 3.1% market share by amount of policies sold by insurance brokerage companies during 2003, 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, 2004, Banchile Securitizadora had shareholders' equity of Ch\$620 million, and for the year ended December 31, 2004, had net income of Ch\$59 million. Banchile Securitizadora had a 15.14% market share by volume of assets securitized as of December 31, 2004.

*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, 2004, Promarket S.A. had shareholders' equity of Ch\$331 million, and for the year ended December 31, 2004, had net income of Ch\$46 million.

*Collection Services.* We provide judicial and extra-judicial collection services of loans on our behalf or on behalf of third parties through Socofin S.A. As of December 31, 2004, Socofin S.A. had equity of Ch\$931 million, and for the year ended December 31, 2004, had a net income of Ch\$137 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, 2004, Banchile Trade Services Limited had equity of Ch\$(1) million and a net loss of Ch\$(7) million.

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### ***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 1,001 ATMs (that form part of Redbanc's 3,181 ATM system) allow our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2004, we had a network of 224 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 and checking accounts, lend to small- and medium-size companies and provide information to current and potential customers.

We offer electronic banking services to our customers 24 hours a day through our internet website, [www.bancochile.cl](http://www.bancochile.cl), which has homepages that are segmented by market. Our retail 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 middle market companies homepage offers services including our office banking service, *Banconexion Web*, which enables our middle market companies 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 2004, approximately 171,084 individual customers and 29,968 corporate customers performed close to 13.1 million transactions monthly on our website, of which 1.6 million are 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 980,000 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 on an electronic basis through the internet. We supplement this service with a wide range of financial services and electronic payment means. Artikos Chile uses the Commerce One platform, a world leader in business-to-business technological solutions.

## **Competition**

### ***Overview***

The Chilean market for banking and other financial services is highly competitive, and we face significant competition in each of our principal areas of operation. The Chilean financial services market consists of a number of distinct sectors. The most important sector, commercial banking, includes 26 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 14, and those that are principally foreign-owned, of which there are

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12. At December 31, 2004, three banks, Banco Santander-Chile (22.7%), our bank (17.8%) and the public sector bank, Banco del Estado (13.2%) together accounted for 53.7% of all outstanding loans by Chilean financial institutions, net of interbank loans. Chilean-owned banks together accounted for 61.0% of total loans outstanding while foreign-owned banks accounted for 39.0% of total loans outstanding.

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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. The principal commercial banks in Chile include Banco Santander-Chile, Banco de Credito e Inversiones and BBVA Banco BHIF, which we consider to be our primary competitors. 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 at December 31, 2004, with outstanding loans, net of interbank loans, of Ch\$4,937,389 million, representing a 13.2% market share, according to data published by the Chilean Superintendency of Banks.

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

In the retail banking business area, 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 business area to be Banco Santander-Chile and Banco de Credito e Inversiones, as each of these banks has developed business strategies that focus on the lower-middle to middle income subsegments of the Chilean population. In the individual banking sector, particularly 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.

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, the second and fourth largest banks in Chile at that date, 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. Although we believe that we are currently large enough to compete effectively in our target markets, any further consolidation in the Chilean financial system may adversely affect our competitive position in the Chilean financial services industry.

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 less than 1.1% as of December 31, 2004, according to the Chilean Superintendency of Banks, the opening of these banks is likely to bring increased competition into the consumer banking business.

In addition, two new banks were incorporated during 2004, and some local investor groups have announced their intention to incorporate new banks in 2005. We expect that the addition of these new banks will lead to greater competition, particularly in banking services directed to middle-income individuals.



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The following table provides certain statistical information on the Chilean financial system as of December 31, 2004:

As of December 31, 2004								
	Assets		Loans(1)		Deposits		Shareholders	Equity(2)
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
(in millions of constant Ch\$ as of December 31, 2004, except percentages)								
Domestic private sector banks	Ch\$ 23,920,951	43.9%	Ch\$ 17,842,889	47.8%	Ch\$ 14,527,724	45.6%	Ch\$ 2,015,873	43.5%
Foreign-owned banks	22,041,760	40.5	14,569,016	39.0	12,573,928	39.4	2,207,874	47.6
Private sector total	Ch\$ 45,962,711	84.4	Ch\$ 32,411,905	86.8	Ch\$ 27,101,652	85.0	Ch\$ 4,223,747	91.1
Banco del Estado	8,522,488	15.6	4,937,389	13.2	4,781,267	15.0	412,493	8.9
Total banking system	Ch\$ 54,485,199	100.0%	Ch\$ 37,349,294	100.0%	Ch\$ 31,882,919	100.0%	Ch\$ 4,636,240	100.0%

Source: Chilean Superintendency of Banks

(1) Net of interbank loans.

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

**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,				
	2000	2001	2002	2003	2004
Banco Santander-Chile	11.5%	11.7%	24.7%	22.6%	22.7%
Banco de Chile	12.7	12.1	18.7	18.5	17.8
Banco de Credito e Inversiones	7.9	9.0	10.4	11.2	11.8
BBVA Banco BHIF	5.8	6.0	6.7	7.3	7.8
Banco Santiago(2)	15.8	16.1			
Banco de A. Edwards(3)	8.3	7.4			

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Total market share for six banks	62.0%	62.3%	60.5%	59.6%	60.1%
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Source: Chilean Superintendency of Banks

- (1) For ease of comparison, interbank loans have been eliminated.
- (2) Banco Santiago merged with Banco Santander-Chile in August 2002.
- (3) Banco de A. Edwards merged with us on January 1, 2002.



**Table of Contents*****Risk Index***

Our unconsolidated risk index primarily increased in 2002 and 2003 (relative to prior years) as a result of our merger with Banco de A. Edwards.

As of October 31, 2004, our unconsolidated risk index of 2.39% was higher than the risk index of the financial system as a whole (*i.e.*, all banks) of 2.01% (the latest available information for 2004 for the Chilean financial system). For a discussion of risk index, see Selected Statistical Information Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines Allowance for Loan Losses under the Previous Guidelines Global Allowances for Loan Losses. The following graph illustrates the five-year history of our unconsolidated loan portfolio risk index compared to the risk index of total loans in the Chilean financial system as of October 31 for each of the years indicated.

Source: Chilean Superintendency of Banks

The following table sets forth the unconsolidated risk index of the six largest private sector banks and that of the financial system as a whole (including such six banks) at October 31 in each of the last five years:

	<b>Unconsolidated Risk Index As of</b>				
	<b>October 31,</b>				
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004(3)</b>
Banco Santiago(1)	1.34%	1.26%			
Banco de A. Edwards(2)	2.90	3.23			
Banco de Credito e Inversiones	1.95	1.63	1.34%	1.30%	1.88%
BBVA Banco BHIF	2.18	1.81	1.68	1.42	1.57
Banco Santander Chile	1.42	1.38	1.61	1.85	1.88
Banco de Chile	2.01	2.03	2.98	2.40	2.39
Financial system	2.08%	1.90%	1.95%	1.82%	2.01%

Source: Chilean Superintendency of Banks

(1) Banco Santiago merged with Banco Santander-Chile in August 2002.

(2) Banco de A. Edwards merged with us on January 1, 2002.

(3) The guidelines used by Chilean banks to calculate their consolidated and unconsolidated risk index were amended in 2004. Consequently, our unconsolidated risk index information (and that of the Chilean financial system) for 2004 is not comparable to the unconsolidated risk

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indices presented for preceding periods. See note 1 to our audited consolidated financial statements.

**Table of Contents*****Credit Quality***

At December 31, 2004, according to information published by the Chilean Superintendency of Banks, we had an unconsolidated ratio of past due loans to total loans of 1.27%. The following table sets forth the ratio of past due loans to total loans for the four largest private sector banks at December 31 in each of the last three years:

	<b>Past Due Loans to Total Loans</b>		
	<b>As of December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Banco de Credito e Inversiones	1.09%	1.11%	0.94%
Banco de Chile	2.43	1.74	1.27
BBVA Banco BHIF	1.97	1.91	1.64
Banco Santander Chile	2.15	2.24	1.52
<b>Total for four banks</b>	<b>2.03%</b>	<b>1.83%</b>	<b>1.35%</b>

Source: Chilean Superintendency of Banks

***Deposits***

We had deposits of Ch\$5,267,066 million at December 31, 2004 on an unconsolidated basis. In unconsolidated terms, our 16.5% 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 four private sector banks with the largest market share as of December 31 in each of the last three years:

	<b>Deposits</b>		
	<b>As of December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
BBVA Banco BHIF	6.9%	7.7%	8.3%
Banco de Credito e Inversiones	10.3	10.8	11.3
Banco de Chile	16.7	17.3	16.5
Banco Santander Chile	22.1	19.9	20.8
<b>Total market share for four banks</b>	<b>56.0%</b>	<b>55.7%</b>	<b>56.9%</b>

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Source: Chilean Superintendency of Banks

**Table of Contents****Shareholders' Equity**

With Ch\$521,905 million in shareholders' equity (not including net income), according to information published by the Chilean Superintendency of Banks, at December 31, 2004, 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,		
	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)		
BBVA Banco BHIF	Ch\$ 245,113	Ch\$ 243,407	Ch\$ 252,256
Banco de Credito e Inversiones	263,641	295,050	337,190
Banco de Chile	585,532	579,251	521,905
Banco Santander Chile	Ch\$ 834,298	Ch\$ 830,677	Ch\$ 832,959

Source: Chilean Superintendency of Banks

**Return on Average Shareholders' Equity**

Our return on average shareholders' equity (including net income for the year) for the year ended December 31, 2004 was 23.9%, 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,				
	2000	2001	2002	2003	2004
Banco de A. Edwards (1)	1.5%	4.3%			
Banco Santiago(2)	19.8	24.0			
BBVA Banco BHIF	7.4	6.3	8.8%	10.5%	5.3%
Banco de Chile	23.4	23.6	8.8	20.2	23.9
Banco de Credito e Inversiones	19.0	21.8	20.4	22.1	22.8
Banco Santander-Chile	22.1	22.1	16.6	21.6	20.4
Total average financial system	12.5%	15.7%	13.5%	14.9%	15.3%

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Source: Chilean Superintendency of Banks

- (1) Banco de A. Edwards merged with us on January 1, 2002.
- (2) Banco Santiago merged with Banco Santander-Chile in August 2002.

**Table of Contents*****Efficiency***

For the year ended December 31, 2004, our operating expenses as a percentage of our operating revenues, or efficiency ratio, was 51.2%.

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

	<b>Efficiency Ratio(1)</b>		
	<b>As of December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Banco Santander-Chile	50.1%	46.5%	68.1%
Banco de Credito e Inversiones	54.8	51.3	53.1
Banco de Chile	61.0	55.4	51.2
BBVA Banco BHIF	64.6	61.0	47.7
<b>Average for four banks</b>	<b>55.5%</b>	<b>51.4%</b>	<b>51.7%</b>

Source: Chilean Superintendency of Banks

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

**REGULATION AND SUPERVISION****General**

In Chile, only banks may maintain checking accounts for their customers, conduct foreign trade operations and 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 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 General Banking Law. That law, amended most recently in 2004, 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.

Following the Chilean banking crisis of 1982 and 1983, the Chilean Superintendency of Banks assumed control of 19 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.



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### **The Central Bank**

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

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 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 General Banking Law.

According to Article 35 bis of the 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;

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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.

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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.

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

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

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

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

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

## **Limitations on Types of Activities**

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

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On March 2, 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\$1,870,241 or U.S.\$3,341 as of December 31, 2004) 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 (i) gaps between assets and liabilities maturing within less than 30 days do not exceed a bank's basic capital, (ii) gaps between assets and liabilities maturing within less than 90 days do not exceed twice a bank's equity and (iii) interest rate mismatches of a bank's foreign currency liabilities do not exceed 8.0% of its effective equity ratio.

## **Minimum Capital**

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Under the General Banking Law, a bank must have a minimum paid-in capital and reserves of UF800,000 (Ch\$13,854 million or U.S.\$24.7 million as of December 31, 2004). 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\$10,390 million or U.S.\$18.6 million as of December 31, 2004) the effective equity ratio requirement is reduced to 10.0%.

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### **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.

### **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.

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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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### **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. These models and methods, and any revision made to them, must be approved by the bank's board of directors. This evaluation is conducted in order to determine the necessary allowances to adequately cover loan losses. Each bank is required to calculate and maintain, on a monthly basis, the following types of allowances:

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

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 the bank's 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 bank's external auditors as to the bank's 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 regulations with respect to allowances effective 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 Allowance for Loan Losses under the Previous Guidelines.

### **Additional Allowances**

Under the amended 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 decided to establish additional allowances to cover unexpected deterioration of our portfolio with normal risk.

The concept of voluntary allowances has been eliminated by the amended regulations. See Item 4. Selected Statistical Information Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines Allowances for Loan Losses under the Previous Guidelines Voluntary Allowances for Loan Losses.

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### **Classification of Banks**

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

#### *Classification of Banks: 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 (i) level A in terms of solvency and level B in terms of management, (ii) level B in terms of solvency and level A in terms of management, or (iii) 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 (i) level B in terms of solvency and level B in terms of management for two or more consecutive review periods, (ii) level A in terms of solvency and level C in terms of management, or (iii) 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 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.

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### ***Classification of Banks: Models and Methods***

The Chilean Superintendency of Banks requires banks to follow new guidelines to determine the allowances for loan losses. A bank is also classified into categories 1 through 4 based on how closely its models and methods for determining allowances comply with the models and methods determined by the Chilean Superintendency of Banks.

- Category 1: A category 1 bank has models and methods that are satisfactory to the Chilean Superintendency of Banks and is entitled to continue using those models and methods.
- Category 2: A category 2 bank must maintain the minimum levels of allowances established by the Chilean Superintendency of Banks while its board of directors is made aware of the problems detected by the Chilean Superintendency of Banks and takes steps to correct them.
- Category 3 or 4: A bank in category 3 or 4 must maintain the minimum levels of allowances established by the Chilean Superintendency of Banks until it is authorized by the Chilean Superintendency of Banks to do otherwise.

### **Classification of Loan Portfolio**

Chilean banks are required to classify their loan portfolio on an ongoing basis for the purpose of determining the amount of allowances for loan losses. The Chilean Superintendency of Banks establishes the guidelines used by banks for such classifications, although 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: (i) consumer loans (including loans granted to individuals for financing the acquisition of consumer goods or payment of services); (ii) 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); (iii) leasing operations (including consumer, commercial and residential leasing); (iv) factoring operations and (v) commercial loans (includes loans other than those described in (i) through (iv) above).

The Chilean Superintendency of Banks amended its guidelines effective as of January 1, 2004. For a discussion of loan portfolio classification under the previous guidelines, see Selected Statistical Information Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines Classification of Loan Portfolio under the Previous Guidelines.

In accordance with the amended regulations, 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.

**Table of Contents*****Classification of Loan Portfolio: 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 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 normal circumstances.

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

<u>Classification</u>	<u>Estimated range of loss</u>	<u>Allowance</u>
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:

<u>Category(1)</u>	<u>Estimated range of loss</u>	<u>Allowance(2)</u>
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.

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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](#) [Allowance for Loan Losses under the Previous Guidelines](#) [Global Allowances for Loan Losses](#).

### ***Classification of Loan Portfolio: 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.

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

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

a reserve requirement of 9.0% for demand deposits and 3.6% for time deposits. See [Reserve Requirements](#) above;

a bank's risk-adjusted net asset (liability) foreign currency position cannot exceed 20% of its net capital base;

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; and

the interest rate mismatches of a bank's foreign currency liabilities may not exceed 8.0% of 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 financial leasing, mutual fund and investment fund administration, factoring, investment advisory services and merger and acquisition services. The Superintendency of Banks generally regulates these

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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.

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### **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, 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:



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

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:

<u>Rating Agency</u>	<u>Short Term</u>	<u>Long Term</u>
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:

<u>Rating Agency</u>	<u>Short Term</u>	<u>Long Term</u>
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 authorized by the Central Bank and, in general, to individuals and entities domiciled abroad, as long as the Central Bank is kept informed of such activities.

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%.

**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, 2004, we owned the properties on which 129 of our full-service branches are located (approximately 103,400 square meters of office space). We lease office space for our remaining 95 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 140,000 square meters in mainly recreational physical facilities in Chile, which we use to assist our employees in maintaining a healthy work and life balance and which we use for incentive and integration activities.

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

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

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

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

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

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

and

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

Where:

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

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

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

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

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

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

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

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

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

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

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

Due to the significant revaluation of the Chilean peso against the U.S. dollar in 2004 and 2003 (the published observed exchange rate was Ch\$559.83 per U.S. \$1.00 on December 31, 2004 as compared to Ch\$599.42 and Ch\$712.38 per U.S. \$1.00 on December 31, 2003 and 2002, respectively), and the fact that nominal interest rates and the inflation rate were comparatively low in 2004 and 2003, most real interest rates on foreign currency assets and liabilities shown in the tables.

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.

Nonperforming 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. Nonperforming loans consist of loans as to which either principal or interest is overdue (*i.e.*, non accrual loans) and restructured loans earning no interest. Nonperforming loans that are 90 days or more overdue, or 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

balances maintained in overseas banks earn interest on certain accounts in certain countries.

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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, 2002, 2003 and 2004:

**Year Ended December 31,**

		2002				2003				2004			
		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, 2004, except percentages)

<b>Assets</b>													
<b>Interest earning assets</b>													
<b>Interbank deposits</b>													
Ch\$													
UF													
Foreign currency													
	Ch\$	220,830	Ch\$ 4,059	1.84	7.52	Ch\$ 123,063	Ch\$ 1,866	1.52	(15.49)	Ch\$ 96,720	Ch\$ 2,362	2.44	(6.59)
Total		220,830	4,059	1.84	7.52	123,063	1,866	1.52	(15.49)	96,720	2,362	2.44	(6.59)
<b>Financial investments</b>													
Ch\$													
UF													
Foreign currency													
		470,666	28,043	5.96	3.05	800,071	28,387	3.55	2.45	988,338	26,278	2.66	0.22
		710,289	51,606	7.27	4.32	154,201	8,064	5.23	4.12	136,411	8,332	6.11	3.59
		703,395	54,931	7.81	13.83	869,376	(56,216)			709,463	4,833	0.68	(8.19)
Total		1,884,350	134,580	7.14	7.55	1,823,648	(19,765)			1,834,212	39,443	2.15	(2.78)
<b>Commercial loans</b>													
Ch\$													
UF													
Foreign currency													
		910,467	107,101	11.76	8.70	1,154,902	107,986	9.35	8.19	1,240,833	82,601	6.66	4.13
		1,858,256	158,387	8.52	5.55	1,799,963	110,067	6.11	4.99	1,924,005	139,391	7.24	4.70
		353,565	35,670	10.09	16.23	287,225	15,822	5.51	(12.16)	221,466	4,731	2.14	(6.87)
Total		3,122,288	301,158	9.65	7.68	3,242,090	233,875	7.21	4.61	3,386,304	226,723	6.70	3.73
<b>Consumer loans</b>													
Ch\$													
UF													
Foreign currency													
		374,660	87,719	23.41	20.03	404,652	83,100	20.54	19.26	609,856	118,557	19.44	16.61
		29,780	3,366	11.30	8.25	27,757	2,600	9.37	8.21	24,861	2,579	10.37	7.76
Total		404,440	91,085	22.52	19.16	432,409	85,700	19.82	18.55	634,717	121,136	19.09	16.26
<b>Interbank loans</b>													
Ch\$													
UF													
		65,546	1,829	2.79	(0.03)	55,831	1,289	2.31	1.23	31,347	569	1.82	(0.60)
		37,385	1,451	3.88	9.68	29,981	582	1.94	(15.13)	13,827	251	1.82	(7.16)

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Foreign currency												
<b>Total</b>	<b>102,931</b>	<b>3,280</b>	<b>3.19</b>	<b>3.50</b>	<b>85,812</b>	<b>1,871</b>	<b>2.18</b>	<b>(4.49)</b>	<b>45,174</b>	<b>820</b>	<b>1.82</b>	<b>(2.61)</b>
<b>Leasing contracts</b>												
Ch\$	1,273	214	16.81	13.61	6,275	619	9.86	8.70	15,976	1,073	6.72	4.18
UF	176,684	21,803	12.34	9.26	213,619	21,515	10.07	8.91	252,010	25,999	10.32	7.70
Foreign currency	69,715	11,190	16.05	22.53	51,977	(4,793)			36,107	(154)		
<b>Total</b>	<b>247,672</b>	<b>33,207</b>	<b>13.41</b>	<b>13.02</b>	<b>271,871</b>	<b>17,341</b>	<b>6.38</b>	<b>7.20</b>	<b>304,093</b>	<b>26,918</b>	<b>8.85</b>	<b>6.60</b>
<b>Foreign trade loans</b>												
Ch\$	6,102	288	4.72	1.85	45,733	1,979	4.33	3.22	89,130	3,090	3.47	1.01
UF	965	48	4.97	2.10	12,975	104	0.80	(0.27)	20,192	482	2.39	(0.04)
Foreign currency	626,561	4,341	0.69	6.31	611,977	2,353	0.38	(16.43)	573,591	16,894	2.95	(6.13)
<b>Total</b>	<b>633,628</b>	<b>4,677</b>	<b>0.74</b>	<b>6.26</b>	<b>670,685</b>	<b>4,436</b>	<b>0.66</b>	<b>(14.78)</b>	<b>682,913</b>	<b>20,466</b>	<b>3.00</b>	<b>(5.02)</b>
<b>Mortgage loans</b>												
Ch\$												
UF	1,274,401	135,497	10.63	7.60	1,186,079	109,091	9.20	8.04	1,000,958	100,158	10.01	7.40
Foreign currency												
<b>Total</b>	<b>1,274,401</b>	<b>135,497</b>	<b>10.63</b>	<b>7.60</b>	<b>1,186,079</b>	<b>109,091</b>	<b>9.20</b>	<b>8.04</b>	<b>1,000,958</b>	<b>100,158</b>	<b>10.01</b>	<b>7.40</b>
<b>Contingent loans</b>												
Ch\$	45,627	1,590	3.48	3.48	45,663	1,587	3.48	3.48	59,726	1,744	2.92	2.92
UF	128,682	1,646	1.28	1.28	131,443	1,687	1.28	1.28	185,579	1,910	1.03	1.03
Foreign currency	205,214	122	0.06	0.06	227,587	70	0.03	0.03	231,381	76	0.03	0.03
<b>Total</b>	<b>379,523</b>	<b>3,358</b>	<b>0.88</b>	<b>0.88</b>	<b>404,693</b>	<b>3,344</b>	<b>0.83</b>	<b>0.83</b>	<b>476,686</b>	<b>3,730</b>	<b>0.78</b>	<b>0.78</b>
<b>Past due loans</b>												
Ch\$	32,450	2,576	7.94	4.98	29,086	735	2.53	1.44	21,796	849	3.90	1.43
UF	105,108	402	0.38	(2.37)	100,137	926	0.92	(0.14)	72,061	788	1.09	(1.30)
Foreign currency	12,289	139	1.13	6.78	9,511	2	0.02	(16.73)	5,105	(21)		
<b>Total</b>	<b>149,847</b>	<b>3,117</b>	<b>2.08</b>	<b>(0.03)</b>	<b>138,734</b>	<b>1,663</b>	<b>1.20</b>	<b>(0.95)</b>	<b>98,962</b>	<b>1,616</b>	<b>1.63</b>	<b>(0.64)</b>
<b>Total interest earning assets</b>												
Ch\$	1,906,791	229,360	12.03	8.96	2,542,213	225,682	8.88	7.72	3,057,002	234,761	7.68	5.12
UF	4,284,165	372,755	8.70	5.72	3,626,174	254,054	7.01	5.87	3,616,077	279,639	7.73	5.18
Foreign currency	2,228,954	111,903	5.02	10.88	2,210,697	(40,314)			1,887,660	28,972	1.53	(7.42)
<b>Total</b>	<b>Ch\$ 8,419,910</b>	<b>Ch\$ 714,018</b>	<b>8.48%</b>	<b>7.82%</b>	<b>Ch\$ 8,379,084</b>	<b>Ch\$ 439,422</b>	<b>5.24%</b>	<b>4.89%</b>	<b>Ch\$ 8,560,739</b>	<b>Ch\$ 543,372</b>	<b>6.35%</b>	<b>2.38%</b>



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Year Ended December 31,

		2002		2003				2004					
		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, 2004, except percentages)													
<b>Assets</b>													
<b>Non interest earning assets</b>													
<b>Cash and due from banks</b>													
Ch\$	Ch\$	507,116				Ch\$	542,256			Ch\$	517,795		
UF		392											
Foreign currency		69,523				115,660				147,087			
<b>Total</b>		<b>577,031</b>				<b>657,916</b>				<b>664,882</b>			
<b>Allowances for loan losses</b>													
Ch\$		(228,158)				(196,630)				(163,835)			
UF													
Foreign currency		(4,011)				(3,946)				(1,955)			
<b>Total</b>		<b>(232,169)</b>				<b>(200,576)</b>				<b>(165,790)</b>			
<b>Fixed assets</b>													
Ch\$		147,695				135,929				128,070			
UF													
Foreign currency		1,754				1,436				812			
<b>Total</b>		<b>149,449</b>				<b>137,365</b>				<b>128,882</b>			
<b>Other assets</b>													
Ch\$		244,798				217,865				306,916			
UF		1,078				1,247				1,229			
Foreign currency		132,096				66,820				104,368			
<b>Total</b>		<b>377,972</b>				<b>285,932</b>				<b>412,513</b>			
<b>Total non interest earning assets</b>													
Ch\$		671,451				699,420				788,946			
UF		1,470				1,247				1,229			
Foreign currency		199,362				179,970				250,312			

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Total	872,283		880,637		1,040,487	
<b>Total assets</b>						
Ch\$	2,578,242	Ch\$ 229,360	3,241,633	Ch\$ 225,682	3,845,948	Ch\$ 234,761
UF	4,285,635	372,755	3,627,421	254,054	3,617,306	279,639
Foreign currency	2,428,316	111,903	2,390,667	(40,314)	2,137,972	28,972
Total	Ch\$ 9,292,193	Ch\$ 714,018	Ch\$ 9,259,721	Ch\$ 439,422	Ch\$ 9,601,226	Ch\$ 543,372

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Year Ended December 31,

	2002				2003				2004			
	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, 2004, except percentages)												
<b>Liabilities</b>												
<b>Interest bearing liabilities</b>												
<b>Interest bearing demand deposits</b>												
Ch\$												
UF												
Foreign currency												
Total												
<b>Savings accounts</b>												
Ch\$												
UF	Ch\$ 173,446	Ch\$ 7,412	4.27	1.41	Ch\$ 176,967	Ch\$ 2,987	1.69	0.61	Ch\$ 146,778	Ch\$ 3,256	2.22	(0.21)
Foreign currency												
Total	173,446	7,412	4.27	1.41	176,967	2,987	1.69	0.61	146,778	3,256	2.22	(0.21)
<b>Time deposits</b>												
Ch\$	1,858,926	91,168	4.90	2.03	1,792,100	63,297	3.53	2.44	1,905,554	44,952	2.36	(0.07)
UF	966,785	50,722	5.25	2.36	798,875	19,248	2.41	1.33	710,255	26,223	3.69	1.23
Foreign currency	815,195	6,763	0.83	6.46	822,976	3,473	0.42	(16.40)	850,227	14,460	1.70	(7.26)
Total	3,640,906	148,653	4.08	3.11	3,413,951	86,018	2.52	(2.36)	3,466,036	85,635	2.47	(1.57)
<b>Central Bank borrowings</b>												
Ch\$	58,541	1,945	3.32	0.49	65,862	1,544	2.34	1.26	78,128	1,695	2.17	(0.25)
UF	4,133	368	8.90	5.92	3,393	201	5.92	4.80	2,594	154	5.94	3.42
Foreign currency					694	18	2.59	(14.59)	9,537	207	2.17	(6.84)
Total	62,674	2,313	3.69	0.85	69,949	1,763	2.52	1.28	90,259	2,056	2.28	(0.84)
<b>Repurchase agreements</b>												
Ch\$	217,715	6,031	2.77	(0.05)	218,500	5,262	2.41	1.32	328,898	4,000	1.22	(1.19)
UF	5,376	99	1.84	(0.95)	25,397	4	0.02	(1.04)	798			
Foreign currency	161,716	6,791	4.20	10.02	115,826	3,649	3.15	(14.13)	95,136	3,811	4.01	(5.16)

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Total	384,807	12,921	3.36	4.17	359,723	8,915	2.48	(3.82)	424,832	7,811	1.84	(2.07)
<b>Mortgage finance bonds</b>												
Ch\$												
UF	1,312,999	122,467	9.33	6.33	1,051,414	77,613	7.38	6.24	914,065	74,721	8.17	5.61
Foreign currency												
Total	1,312,999	122,467	9.33	6.33	1,051,414	77,613	7.38	6.24	914,065	74,721	8.17	5.61
<b>Other interest bearing liabilities(1)</b>												
Ch\$												
UF	37,361	4,943	13.23	10.12	44,380	8,342	18.80	17.54	57,408	617	1.07	(1.32)
Foreign currency												
UF	327,661	30,542	9.32	6.32	300,127	22,861	7.62	6.48	325,252	30,795	9.47	6.87
Foreign currency	410,257	4,221	1.03	6.67	696,406	841	0.12	(16.65)	663,297	10,009	1.51	(7.44)
Total	775,279	39,706	5.12	6.69	1,040,913	32,044	3.08	(8.52)	1,045,957	41,421	3.96	(2.65)
<b>Total interest bearing liabilities</b>												
Ch\$												
UF	2,172,543	104,087	4.79	1.92	2,120,842	78,445	3.70	2.60	2,369,988	51,264	2.16	(0.26)
Foreign currency												
UF	2,790,400	211,610	7.58	4.63	2,356,173	122,914	5.22	4.10	2,099,742	135,149	6.44	3.91
Foreign currency	1,387,168	17,775	1.28	6.94	1,635,902	7,981	0.49	(16.34)	1,618,197	28,487	1.76	(7.21)
Total	Ch\$ 6,350,111	Ch\$ 333,472	5.25%	4.21%	Ch\$ 6,112,917	Ch\$ 209,340	3.42%	(1.89)%	Ch\$ 6,087,927	Ch\$ 214,900	3.53%	(0.67)%

(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,											
2002				2003				2004			
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, 2004, except percentages)											
<b>Liabilities</b>											
<b>Non interest bearing liabilities</b>											
<b>Non interest bearing demand deposits</b>											
Ch\$	Ch\$ 1,237,288			Ch\$ 1,394,440				Ch\$ 1,519,407			
UF	13,598			11,734				35,955			
Foreign currency	382,692			467,453				533,147			
<b>Total</b>	<b>1,633,578</b>			<b>1,873,627</b>				<b>2,088,509</b>			
<b>Contingent liabilities</b>											
Ch\$	45,571			45,536				59,499			
UF	128,543			131,025				185,273			
Foreign currency	205,645			228,123				233,579			
<b>Total</b>	<b>379,759</b>			<b>404,684</b>				<b>478,351</b>			
<b>Other non interest bearing</b>											
Ch\$	114,569			110,122				193,742			
UF	4,938			3,812				4,816			
Foreign currency	182,060			85,864				99,956			
<b>Total</b>	<b>301,567</b>			<b>199,798</b>				<b>298,514</b>			
<b>Shareholders equity</b>											
Ch\$	627,178			668,695				647,925			
UF											
Foreign currency											
<b>Total</b>	<b>627,178</b>			<b>668,695</b>				<b>647,925</b>			
<b>Total non interest bearing liabilities and shareholders equity</b>											
Ch\$	2,024,606			2,218,793				2,420,573			

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UF	147,079		146,571		226,044	
Foreign currency	770,397		781,440		866,682	
<b>Total</b>	<b>2,942,082</b>		<b>3,146,804</b>		<b>3,513,299</b>	
<b>Total liabilities and shareholders equity</b>						
Ch\$	4,197,149	Ch\$ 104,087	4,339,635	Ch\$ 78,445	4,790,561	Ch\$ 51,264
UF	2,937,479	211,610	2,502,744	122,914	2,325,786	135,149
Foreign currency	2,157,565	17,775	2,417,342	7,981	2,484,879	28,487
<b>Total</b>	<b>Ch\$ 9,292,193</b>	<b>Ch\$ 333,472</b>	<b>Ch\$ 9,259,721</b>	<b>Ch\$ 209,340</b>	<b>Ch\$ 9,601,226</b>	<b>Ch\$ 214,900</b>

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

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

	Year Ended December 31,		
	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004, except for percentages)		
<b>Total average interest earning assets</b>			
Ch\$	Ch\$ 1,906,791	Ch\$ 2,542,213	Ch\$ 3,057,002
UF	4,284,165	3,626,174	3,616,077
Foreign currency	2,228,954	2,210,697	1,887,660
<b>Total</b>	<b>8,419,910</b>	<b>8,379,084</b>	<b>8,560,739</b>
<b>Net interest earned(1)</b>			
Ch\$	125,273	147,237	183,497
UF	161,145	131,140	144,490
Foreign currency	94,128	(48,295)	485
<b>Total</b>	<b>Ch\$ 380,546</b>	<b>Ch\$ 230,082</b>	<b>Ch\$ 328,472</b>
<b>Net interest margin, nominal basis(2)</b>			
Ch\$	6.57%	5.79%	6.00%
UF	3.76	3.62	4.00
Foreign currency	4.22	(2.18)	0.03
<b>Total</b>	<b>4.52%</b>	<b>2.75%</b>	<b>3.84%</b>

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

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

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

The following tables compare, by currency of denomination, changes in our net interest revenue between 2003 and 2004 and between 2002 and 2003 caused by (1) changes in the average volume of interest earning assets and interest bearing liabilities and (2) 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 2002 to 2003 due to changes in		Net change from 2002 to 2003	Increase (Decrease) from 2003 to 2004 due to changes in		Net change from 2003 to 2004
	Volume	Rate		Volume	Rate	
(in millions of constant Ch\$ as of December 31, 2004)						
<b>Assets</b>						
<b>Interest earning assets</b>						
<b>Interbank deposits</b>						
Ch\$						
UF						
Foreign currency	Ch\$ (1,572)	Ch\$ (621)	Ch\$ (2,193)	Ch\$ (463)	Ch\$ 959	Ch\$ 496
Total	(1,572)	(621)	(2,193)	(463)	959	496
<b>Financial investments</b>						
Ch\$	14,595	(14,251)	344	5,869	(7,978)	(2,109)
UF	(32,065)	(11,477)	(43,542)	(994)	1,262	268
Foreign currency	10,487	(121,634)	(111,147)		61,049	61,049
Total	(6,983)	(147,362)	(154,345)	4,875	54,333	59,208
<b>Commercial loans</b>						
Ch\$	25,410	(24,525)	885	7,560	(32,945)	(25,385)
UF	(4,828)	(43,492)	(48,320)	7,966	21,358	29,324
Foreign currency	(5,804)	(14,044)	(19,848)	(3,019)	(8,072)	(11,091)
Total	14,778	(82,061)	(67,283)	12,507	(19,659)	(7,152)
<b>Consumer loans</b>						
Ch\$	6,682	(11,301)	(4,619)	40,106	(4,649)	35,457
UF	(218)	(548)	(766)	(286)	265	(21)
Foreign currency						
Total	6,464	(11,849)	(5,385)	39,820	(4,384)	35,436
<b>Interbank loans</b>						
Ch\$	(249)	(291)	(540)	(484)	(236)	(720)
UF						
Foreign currency	(247)	(622)	(869)	(295)	(36)	(331)
Total	(496)	(913)	(1,409)	(779)	(272)	(1,051)
<b>Leasing contracts</b>						
Ch\$	526	(121)	405	704	(250)	454
UF	4,112	(4,400)	(288)	3,949	535	4,484
Foreign currency	(2,270)	(13,713)	(15,983)		4,639	4,639
Total	2,368	(18,234)	(15,866)	4,653	4,924	9,577
<b>Foreign trade loans</b>						
Ch\$	1,717	(26)	1,691	1,569	(458)	1,111
UF	128	(72)	56	83	295	378
Foreign currency	(99)	(1,889)	(1,988)	(157)	14,698	14,541

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Total	1,746	(1,987)	(241)	1,495	14,535	16,030
<b>Mortgage loans</b>						
Ch\$						
UF	(8,961)	(17,445)	(26,406)	(17,984)	9,051	(8,933)
Foreign currency						
Total	(8,961)	(17,445)	(26,406)	(17,984)	9,051	(8,933)
<b>Contingent loans</b>						
Ch\$						
UF	1	(4)	(3)	437	(280)	157
UF	35	6	41	602	(379)	223
Foreign currency	12	(64)	(52)	1	5	6
Total	48	(62)	(14)	1,040	(654)	386
<b>Past due loans</b>						
Ch\$						
UF	(243)	(1,598)	(1,841)	(216)	330	114
Foreign currency	(20)	544	524	(288)	150	(138)
Foreign currency	(26)	(111)	(137)	(1)	(22)	(23)
Total	(289)	(1,165)	(1,454)	(505)	458	(47)
<b>Total interest earning assets</b>						
Ch\$						
UF	48,439	(52,117)	(3,678)	55,545	(46,466)	9,079
Foreign currency	(41,817)	(76,884)	(118,701)	(6,952)	32,537	25,585
Foreign currency	481	(152,698)	(152,217)	(3,934)	73,220	69,286
Total	Ch\$ 7,103	Ch\$ (281,699)	Ch\$ (274,596)	Ch\$ 44,659	Ch\$ 59,291	Ch\$ 103,950

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	Increase (Decrease) from 2002 to 2003 due to changes in		Net change from 2002 to 2003	Increase (Decrease) from 2003 to 2004 due to changes in		Net change from 2003 to 2004
	Volume	Rate		Volume	Rate	
(in millions of constant Ch\$ as of December 31, 2004)						
<b>Liabilities</b>						
<b>Interest bearing liabilities</b>						
<b>Interest bearing demand deposits</b>						
Ch\$						
UF						
Foreign currency						
	_____	_____	_____	_____	_____	_____
<b>Total</b>	_____	_____	_____	_____	_____	_____
<b>Savings accounts</b>						
Ch\$						
UF						
Foreign currency						
	Ch\$ 148	Ch\$ (4,573)	Ch\$ (4,425)	Ch\$ (566)	Ch\$ 835	Ch\$ 269
	_____	_____	_____	_____	_____	_____
<b>Total</b>	148	(4,573)	(4,425)	(566)	835	269
	_____	_____	_____	_____	_____	_____
<b>Time deposits</b>						
Ch\$						
UF						
Foreign currency						
	(3,173)	(24,698)	(27,871)	3,794	(22,139)	(18,345)
	(7,651)	(23,823)	(31,474)	(2,331)	9,306	6,975
	64	(3,354)	(3,290)	119	10,868	10,987
	_____	_____	_____	_____	_____	_____
<b>Total</b>	(10,760)	(51,875)	(62,635)	1,582	(1,965)	(383)
	_____	_____	_____	_____	_____	_____
<b>Central Bank borrowings</b>						
Ch\$						
UF						
Foreign currency						
	222	(623)	(401)	272	(121)	151
	(58)	(109)	(167)	(47)		(47)
		18	18	192	(3)	189
	_____	_____	_____	_____	_____	_____
<b>Total</b>	164	(714)	(550)	417	(124)	293
	_____	_____	_____	_____	_____	_____
<b>Repurchase agreements</b>						
Ch\$						
UF						
Foreign currency						
	22	(791)	(769)	1,994	(3,256)	(1,262)
	80	(175)	(95)	(2)	(2)	(4)
	(1,671)	(1,471)	(3,142)	(722)	884	162
	_____	_____	_____	_____	_____	_____
<b>Total</b>	(1,569)	(2,437)	(4,006)	1,270	(2,374)	(1,104)
	_____	_____	_____	_____	_____	_____
<b>Mortgage finance bonds</b>						
Ch\$						
UF						
Foreign currency						
	(21,913)	(22,941)	(44,854)	(10,736)	7,844	(2,892)
	_____	_____	_____	_____	_____	_____
<b>Total</b>	(21,913)	(22,941)	(44,854)	(10,736)	7,844	(2,892)
	_____	_____	_____	_____	_____	_____
<b>Other interest bearing liabilities</b>						
Ch\$						
UF						
	1,049	2,350	3,399	1,901	(9,626)	(7,725)
	(2,419)	(5,262)	(7,681)	2,033	5,901	7,934
	_____	_____	_____	_____	_____	_____

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Foreign currency	1,797	(5,177)	(3,380)	(42)	9,210	9,168
<b>Total</b>	<b>427</b>	<b>(8,089)</b>	<b>(7,662)</b>	<b>3,892</b>	<b>5,485</b>	<b>9,377</b>
<b>Total interest bearing liabilities</b>						
Ch\$	(1,880)	(23,762)	(25,642)	7,961	(35,142)	(27,181)
UF	(31,813)	(56,883)	(88,696)	(11,649)	23,884	12,235
Foreign currency	190	(9,984)	(9,794)	(453)	20,959	20,506
<b>Total</b>	<b>Ch\$ (33,503)</b>	<b>Ch\$ (90,629)</b>	<b>Ch\$ (124,132)</b>	<b>Ch\$ (4,141)</b>	<b>Ch\$ 9,701</b>	<b>Ch\$ 5,560</b>

**Investment Portfolio**

The following table sets forth our investment in Chilean government and corporate securities and certain other financial investments as of December 31, 2002, 2003 and 2004. Financial investments traded on a secondary market are shown adjusted to market value, following specific instructions from the Chilean Superintendency of Banks. These instructions provide for the recognition of such adjustments against income except in the case of a permanent portfolio, where an equity account, Unrealized gains (losses) on permanent financial investments, may be directly adjusted, subject to certain restrictions.

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	December 31,			Weighted Average
	Nominal Rate			at December 31, 2004
	2002	2003	2004	
(in millions of constant Ch\$ as of December 31, 2004, except for rate data)				
<b>Central Bank and Government Securities</b>				
Marketable debt securities	Ch\$ 614,044	Ch\$ 992,611	Ch\$ 903,733	2.83%
Marketable debt securities with limited secondary market	280,282			
Chilean government securities	5,670	42,894	9,923	4.21
Investments purchased under agreements to resell	33,311	30,402	26,310	2.47
Investments collateral under agreements to repurchase	201,909	332,690	169,982	5.15
<b>Subtotal</b>	<b>1,135,216</b>	<b>1,398,597</b>	<b>1,109,948</b>	<b>3.19</b>
<b>Corporate Securities and Other Financial Investments</b>				
Investments in Chilean financial institutions	46,631	135,244	43,203	4.66
Foreign government notes	52,908	34,453	28,298	2.16
Investments in foreign countries	286,887	191,223	137,288	3.36
Other financial investments	49,326	109,024	111,336	6.85
Investments collateral under agreements to repurchase	84,293	95,691	177,200	7.47
<b>Subtotal</b>	<b>520,045</b>	<b>565,635</b>	<b>497,325</b>	<b>5.65</b>
<b>Total</b>	<b>Ch\$ 1,655,261</b>	<b>Ch\$ 1,964,232</b>	<b>Ch\$ 1,607,273</b>	<b>3.95%</b>

At December 31, 2004, financial instruments issued by the Central Bank were the only financial instruments we held whose aggregate book value exceeded 10% of our shareholders' equity. These financial instruments are accounted for in the audited consolidated financial statements at market value. See note 1(f) to our audited consolidated financial statements. The value of such investments at December 31, 2004 is as follows:

Issuer	Carrying Value	Market Value
(in millions of constant Ch\$ as of December 31, 2004)		
Central Bank	Ch\$ 1,100,025	Ch\$ 1,100,025

The following table sets forth an analysis of our investments at December 31, 2004, by time remaining to maturity and the weighted average nominal rates of such investments:

Within one year(1)	Rate	After one year but within five years	Rate	After five years	Rate	Total	Rate

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(in millions of constant Ch\$ as of December 31, 2004, except for rate data)

Central Bank and Government Securities								
Marketable debt securities	Ch\$	903,733	2.83%			Ch\$	903,733	2.83%
Chilean government securities		9,923	4.21				9,923	4.21
Investments purchased under agreements to resell		26,310	2.47				26,310	2.47
Investments collateral under agreements to repurchase		169,982	5.15				169,982	5.15
<b>Subtotal</b>		<b>1,109,948</b>	<b>3.19</b>				<b>1,109,948</b>	<b>3.19</b>
Corporate Securities and Other Financial Investments								
Investments in Chilean financial institutions		43,203	4.66				43,203	4.66
Foreign government notes		28,298	2.16				28,298	2.16
Investments in foreign countries		133,309	3.37	Ch\$ 3,979	2.99%		137,288	3.36
Other financial investments		109,520	6.84	1,816	7.70		111,336	6.85
Investments collateral under agreements to repurchase		177,200	7.47				177,200	7.47
<b>Subtotal</b>		<b>491,530</b>	<b>5.66</b>	<b>5,795</b>	<b>4.47</b>		<b>497,325</b>	<b>5.65</b>
<b>Total</b>	<b>Ch\$</b>	<b>1,601,478</b>	<b>3.95%</b>	<b>Ch\$ 5,795</b>	<b>4.47%</b>		<b>Ch\$ 1,607,273</b>	<b>3.95%</b>

(1) In accordance with the regulations of the Chilean Superintendency of Banks, trading investments are classified as due within 1 year.

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

Instruments	As of December 31,								
	2002			2003			2004		
	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value
(in millions of constant Ch\$ as of December 31, 2004)									
U.S. government debt securities	Ch\$ 40,436	Ch\$ 5	Ch\$ 40,441	Ch\$ 21,542	Ch\$ 4	Ch\$ 21,546	Ch\$ 16,819	Ch\$ (2)	Ch\$ 16,817
Chilean government securities	284,443	5	284,448						
<b>Total</b>	<b>Ch\$ 324,879</b>	<b>Ch\$ 10</b>	<b>Ch\$ 324,889</b>	<b>Ch\$ 21,542</b>	<b>Ch\$ 4</b>	<b>Ch\$ 21,546</b>	<b>Ch\$ 16,819</b>	<b>Ch\$ (2)</b>	<b>Ch\$ 16,817</b>

**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.

	December 31,				
	2000	2001	2002	2003	2004
(in millions of constant Ch\$ as of December 31, 2004)					
<b>Commercial loans:</b>					
General commercial loans	Ch\$ 1,748,903	Ch\$ 1,726,300	Ch\$ 2,711,533	Ch\$ 2,708,178	Ch\$ 2,867,288
Foreign trade loans	404,558	402,131	633,232	674,737	599,051
Interbank loans	29,786	25,315	56,750	13,554	15,198
Leasing contracts	184,961	178,241	257,874	275,680	343,853
Other outstanding loans	376,907	341,395	400,932	452,018	936,202
<b>Subtotal commercial loans</b>	<b>2,745,115</b>	<b>2,673,382</b>	<b>4,060,321</b>	<b>4,124,167</b>	<b>4,761,592</b>
<b>Mortgage loans:</b>					
Residential	390,006	443,739	601,239	619,202	443,835
Commercial	433,613	417,777	627,883	537,029	376,047
<b>Subtotal mortgage loans</b>	<b>823,619</b>	<b>861,516</b>	<b>1,229,122</b>	<b>1,156,231</b>	<b>819,882</b>
<b>Consumer loans</b>	<b>208,195</b>	<b>222,040</b>	<b>544,014</b>	<b>603,402</b>	<b>691,851</b>

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Past due loans:					
Commercial loans	47,071	40,560	133,694	92,812	67,758
Residential mortgage loans	4,818	6,720	10,606	11,460	12,605
Consumer loans	3,116	2,912	4,709	3,454	3,693
Leasing contracts	806	469	1,037	415	629
Subtotal past due loans	55,811	50,661	150,046	108,141	84,685
Contingent loans	276,146	307,089	395,224	419,852	530,901
Total loans	Ch\$ 4,108,886	Ch\$ 4,114,688	Ch\$ 6,378,727	Ch\$ 6,411,793	Ch\$ 6,888,911

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

*Mortgage loans* are inflation indexed, fixed rate, long-term loans with monthly payments of principal and interest secured by a real property 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 mortgaged property.



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*Foreign trade loans* are fixed rate, short-term loans made in foreign currencies (principally 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 our general borrowings and factoring.

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

*Contingent loans* consist of open and unused letters of credit together with guarantees granted by us in Chilean pesos, UF and foreign currencies (principally 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).

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, 2004**

The following table sets forth an analysis by type and time remaining to maturity of our loans at December 31, 2004:

	<b>Balance as of December 31, 2004</b>	<b>Due within 1 month</b>	<b>Due after 1 month but within 6 months</b>	<b>Due after 6 months but within 12 months</b>	<b>Due after 1 year but within 3 years</b>	<b>Due after 3 years but within 5 years</b>	<b>Due after 5 years</b>
<b>(in millions of constant Ch\$ as of December 31, 2004)</b>							
Commercial loans	Ch\$ 2,867,288	Ch\$ 482,211	Ch\$ 810,011	Ch\$ 301,144	Ch\$ 549,327	Ch\$ 311,146	Ch\$ 413,449
Consumer loans	691,851	244,720	100,054	96,776	210,198	35,060	5,043
Mortgage loans	819,882	11,035	31,928	38,548	152,131	142,722	443,518
Foreign trade loans	599,051	145,714	372,900	58,062	10,453	4,894	7,028
Interbank loans	15,198	12,503	1,674	1,021			
Leasing contracts	343,853	15,017	35,754	40,524	114,151	65,663	72,744
Other outstanding loans	936,202	141,918	68,211	26,248	99,896	97,459	502,470
Past due loans	84,685	84,685					
Subtotal	6,358,010	1,137,803	1,420,532	562,323	1,136,156	656,944	1,444,252
Contingent loans	530,901	256,487	86,802	54,778	104,079	27,220	1,535
<b>Total loans</b>	<b>Ch\$ 6,888,911</b>	<b>Ch\$ 1,394,290</b>	<b>Ch\$ 1,507,334</b>	<b>Ch\$ 617,101</b>	<b>Ch\$ 1,240,235</b>	<b>Ch\$ 684,164</b>	<b>Ch\$ 1,445,787</b>

The following table presents the interest rate sensitivity of our outstanding loans due after one year as of December 31, 2004, not including contingent loans:

	<u>As of December 31, 2004</u>
	<u>(in millions of constant Ch\$ as of December 31, 2004)</u>
Variable rate	
Ch\$	76,271
UF	898,125
Foreign currency	132,003
<b>Total</b>	<b>1,106,399</b>
Fixed rate	
Ch\$	450,160
UF	1,668,071
Foreign currency	12,722
<b>Total</b>	<b>2,130,953</b>
<b>Total</b>	<b>Ch\$ 3,237,352</b>

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

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

	As of December 31,					
	2002		2003		2004	
	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio
(in millions of constant Ch\$ as of December 31, 2004, except for percentages)						
Agriculture, Livestock, Forestry, Agribusiness, Fishing:						
Agriculture and livestock	Ch\$ 203,262	3.40%	Ch\$ 210,900	3.52%	Ch\$ 210,324	3.31%
Fruit	170,474	2.85	163,222	2.72	168,238	2.65
Forestry and wood extraction	31,627	0.53	17,957	0.30	19,315	0.30
Fishing	98,611	1.65	93,718	1.56	101,264	1.59
Subtotal	503,974	8.43	485,797	8.10	499,141	7.85
Mining and Petroleum:						
Mining and quarries	96,416	1.61	109,093	1.82	25,042	0.39
Natural gas and crude oil extraction	39,440	0.66	13,939	0.23	8,355	0.13
Subtotal	135,856	2.27	123,032	2.05	33,397	0.52
Manufacturing:						
Tobacco, food and beverages	169,453	2.83	163,205	2.72	137,690	2.17
Textiles, clothing and leather goods	71,311	1.19	68,745	1.15	67,776	1.07
Wood and wood products	53,941	0.90	62,535	1.04	47,087	0.74
Paper, printing and publishing	20,673	0.35	17,781	0.30	24,224	0.38
Oil refining, carbon and rubber	63,112	1.05	69,854	1.17	82,360	1.30
Production of basic metal, non-mineral, machine and equipment	159,303	2.66	170,225	2.84	242,003	3.81
Other manufacturing industries	73,885	1.23	74,455	1.24	47,473	0.75
Subtotal	611,678	10.21	626,800	10.46	648,613	10.22
Electricity, Gas and Water:						
Electricity, gas and water	79,151	1.32	73,875	1.23	58,265	0.92
Subtotal	79,151	1.32	73,875	1.23	58,265	0.92
Construction:						
Residential buildings	154,706	2.59	142,017	2.37	164,864	2.59
Other constructions	257,803	4.31	344,588	5.75	327,782	5.16
Subtotal	412,509	6.90	486,605	8.12	492,646	7.75
Commerce:						
Wholesale	268,379	4.49	293,427	4.90	265,076	4.17
Retail, restaurants and hotels	440,384	7.36	431,860	7.21	486,299	7.65

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Subtotal	708,763	11.85	725,287	12.11	751,375	11.82
Transport, Storage and Communications:						
Transport and storage	116,180	1.94	129,240	2.16	159,426	2.50
Communications	27,585	0.46	41,424	0.69	34,810	0.55
Subtotal	143,765	2.40	170,664	2.85	194,236	3.05
Financial Services:						
Financial insurance and companies	630,452	10.54	540,512	9.02	601,776	9.45
Real estate and other financial services	545,598	9.12	587,778	9.81	664,854	10.46
Subtotal	1,176,050	19.66	1,128,290	18.83	1,266,630	19.91
Community, Social and Personal Services:						
Community, social and personal services	303,296	5.06	283,342	4.73	257,975	4.05
Subtotal	303,296	5.06	283,342	4.73	257,975	4.05
Consumer Loans	768,617	12.85	748,362	12.49	878,201	13.81
Residential Mortgage Loans	1,139,844	19.05	1,139,887	19.03	1,277,531	20.10
Total	Ch\$ 5,983,503	100.00%	Ch\$ 5,991,941	100.00%	Ch\$ 6,358,010	100.00%

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

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

	As of December 31,		
	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)		
	Ch\$	Ch\$	Ch\$
Albania	36		
Argentina	30,832	11,637	6,192
Australia			9
Austria	47	319	154
Belgium	445	392	401
Bolivia	183	6	
Brazil	54,965	45,660	52,672
British West Indies	27,717	11,118	7,250
Canada	988	647	425
China	7,819	9,181	22,774
Colombia	6,563	2,652	5,436
Denmark	72	22	6
Ecuador	88	315	165
El Salvador	49	36	2,400
Finland	264	1,147	4,025
France	15,978	17,488	13,815
Germany	866	3,853	4,668
Holland	1,236	134	148
Hong Kong	229	1,533	231
India	559	4,768	2,545
Israel	12		1
Italy	551	960	3,594
Japan	2,231	12,950	10,924
Korea	3,301		
Kuwait	18		
Malaysia		18	
Mauricio			13
Mexico	49,814	38,131	28,602
Monaco		31	
Morocco		42	32
Netherlands		4,404	
New Zealand		129	3
Norway		1,131	12
Panama	12,887	6,238	4,553
Peru	20,417	7,999	16,499
Portugal		111	518
Singapore	4,445	40	51
Slovenia		57	
South Africa	264	43	
South Korea	562	1,195	16,492
Spain	4,924	6,349	5,453
Switzerland	278	566	96

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Sweden	1,589	1,521	1,524
Taiwan	528	108	2,029
United Arab Emirates	217	530	609
United Kingdom	6,985	2,692	39,543
United States	28,771	16,009	24,787
Uruguay	2	3,111	
Venezuela		6,173	5,634
Yugoslavia	161		
	<u>          </u>	<u>          </u>	<u>          </u>
Total	Ch\$ 286,893	Ch\$ 221,446	Ch\$ 284,285
	<u>          </u>	<u>          </u>	<u>          </u>

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

	December 31,		
	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)		
Australia	Ch\$ 41	Ch\$ 45	Ch\$ 56
Austria	42	64	2
Belgium	75	208	108
Canada	274	376	252
China		166	169
Denmark	686	517	65
Finland	13	8	11
France	73	206	423
Germany	2,451	4,362	4,207
Italy	894	1,500	2,094
Japan	339	867	1,201
Netherlands	91	242	149
Norway	43	31	50
Spain	82	182	176
Sweden	123	86	3
Switzerland	236	201	205
United Kingdom	378	445	694
United States	89,789	89,112	115,575
<b>Total</b>	<b>Ch\$ 95,630</b>	<b>Ch\$ 98,618</b>	<b>Ch\$ 125,440</b>

**Credit Review Process**

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

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

Transactions in which the total customer credit risk is more than UF 150,000 (approximately Ch\$2,598 million) require the approval of a credit committee, which includes three directors and our chief executive officer. Transactions in which the total customer credit risk is equal to or less than UF 150,000 may be approved by other executives, depending on the amount involved, as follows:

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<u>Approved by</u>	<u>Limit in UF</u>
Credit committee including members of the board of directors	up to legal limits
Chief executive officer and chairman	up to UF 250,000
Chief executive officer	up to UF 150,000
Senior credit risk officer	up to UF 125,000
Executive credit risk officers	up to UF 100,000
Other credit risk officers	up to UF 60,000
Executive vice president of corporate banking	up to UF 50,000
Other department heads	up to UF 15,000
Other officers	under UF 10,000



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

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

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

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

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

*Classification of Loan Portfolio under the Previous Guidelines*

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

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

<b>Commercial loans range of estimated losses</b>	<b>Consumer loans past due status(1)</b>	<b>Residential mortgage loans past due status(1)</b>	<b>Allowances as a percentage of aggregate exposure</b>
_____	_____	_____	_____

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<u>Category</u>	<u>From</u>	<u>To</u>	<u>From</u>	<u>To</u>	<u>From</u>	<u>To</u>	
			(Days)		(Days)		
A							
B	1%	5%	1	30	1	180	1%
B-	5	39	31	60	181	>81	20
C	40	79	61	120			60
D	80%	100%	>121	121			90%

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

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

the commercial loans outstanding to our 400 largest debtors; or

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

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

According to our internal credit policies, we classified our loans through December 31, 2003 using the previous guidelines. The criteria for determining the range of estimated losses for purposes of the classification of commercial loans was as follows:

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

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

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

Under the previous guidelines, the minimum required allowances for loan losses was the greater of (1) a bank's global allowances for loan losses and (2) its aggregate individual allowances for loan losses. Additionally, a bank was permitted to maintain voluntary allowances in excess of the required minimum so as to provide additional coverage for potential loan losses. We historically followed the practice of maintaining voluntary allowances.

*Global allowances for loan losses.* Under the previous guidelines, the amount of global allowances for loan losses required to be maintained by a bank was equal to the aggregate amount of its outstanding loans multiplied by the greater of (1) the bank's risk index, as defined below, and (2) 0.75%.

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

<u>Category</u>	<u>Provision Percentage</u>
A	0%
B	1
B-	20
C	60
D	90%

The risk index itself was then calculated by dividing (1) the aggregate amount so calculated by (2) the aggregate amount (*i.e.*, the outstanding principal, whether or not past due, and accrued and unpaid interest) of all evaluated loans.

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

<b>Consolidated Risk Index</b>	
<b>At December 31,</b>	
2000	2.01%
2001	2.42
2002	3.00
2003	2.36
2004(1)	2.23%

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

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

<b>Unconsolidated Risk Index At December 31,</b>	
2000	2.05%
2001	2.48
2002	3.10
2003	2.41
2004(1)	2.23%

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

According to the Chilean Superintendency of Banks, the average risk index of all financial institutions in Chile, both foreign and domestic, was 2.01% as of October 31, 2004. At the same date, our average unconsolidated risk index was 2.39%. Our average unconsolidated risk index has continued to improve since 2002 when it was highest as a result of our merger with Banco de A. Edwards in that year. As of October 31, 2004, our unconsolidated risk index was greater than the average for all financial institutions in Chile primarily as a result of higher additional allowances maintained by us as compared to those maintained by the financial system.

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

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

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

	<b>As of December 31,</b>				
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004, except for percentages)</b>				
Allowances based on risk index	Ch\$ 82,589	Ch\$ 99,575	Ch\$ 191,362	Ch\$ 151,318	Ch\$ 153,742
Allowances based on 0.75%	30,817	30,860	47,840	48,088	n/a
Global allowances for loan losses	71,913	88,829	148,113	127,111	n/a

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Individual allowances for loan losses	14,134	16,618	54,283	35,756	
Required minimum allowances	86,047	105,447	202,396	162,867	134,030
Voluntary allowances	38,111	35,753	21,282	21,071	
Additional allowances					19,712
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total allowances for loan losses	Ch\$ 124,158	Ch\$ 141,200	Ch\$ 223,678	Ch\$ 183,938	Ch\$ 153,742
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total allowances for loan losses as a percentage of total loans	3.02%	3.43%	3.51%	2.87%	2.23%

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

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

**Analysis of Our Loan Classification**

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

**As of December 31, 2000**

<u>Category</u>	<u>Commercial Loans</u>	<u>Consumer Loans</u>	<u>Residential Mortgage Loans</u>	<u>Total Loans</u>	<u>Percentage of Evaluated Loans</u>
(in millions of constant Ch\$ as of December 31, 2004)					
A	Ch\$ 1,518,120	Ch\$ 183,426	Ch\$ 494,301	Ch\$ 2,195,847	53.98%
B	1,581,083	15,804	38,594	1,635,481	40.21
B	186,823	5,210	6,824	198,857	4.89
C	23,385	4,057		27,442	0.67
D	7,273	2,815		10,088	0.25
Total evaluated loans	Ch\$ 3,316,684	Ch\$ 211,312	Ch\$ 539,719	Ch\$ 4,067,715	100.00%
Total loans	Ch\$ 3,357,855	Ch\$ 211,312	Ch\$ 539,719	Ch\$ 4,108,886	
Percentage evaluated	98.77%	100.00%	100.00%	99.00%	

**As of December 31, 2001**

<u>Category</u>	<u>Commercial Loans</u>	<u>Consumer Loans</u>	<u>Residential Mortgage Loans</u>	<u>Total Loans</u>	<u>Percentage of Evaluated Loans</u>
(in millions of constant Ch\$ as of December 31, 2004)					
A	Ch\$ 1,385,077	Ch\$ 194,735	Ch\$ 540,045	Ch\$ 2,119,857	52.10%
B	1,630,204	17,643	42,142	1,689,989	41.54
B	177,425	5,973	7,404	190,802	4.69
C	54,224	3,946		58,170	1.43
D	6,975	2,656		9,631	0.24



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Total evaluated loans	Ch\$ 3,253,905	Ch\$ 224,953	Ch\$ 589,591	Ch\$ 4,068,449	100.00%
Total loans	Ch\$ 3,300,144	Ch\$ 224,953	Ch\$ 589,591	Ch\$ 4,114,688	
Percentage evaluated	98.60%	100.00%	100.00%	98.88%	

As of December 31, 2002

Category	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
(in millions of constant Ch\$ as of December 31, 2004)					
A	Ch\$ 2,289,810	Ch\$ 366,630	Ch\$ 803,023	Ch\$ 3,459,463	54.69%
B	2,335,125	40,111	65,161	2,440,397	38.57
B	224,900	9,743	20,226	254,869	4.03
C	124,475	8,366		132,841	2.10
D	31,675	7,165		38,840	0.61
Total evaluated loans	Ch\$ 5,005,985	Ch\$ 432,015	Ch\$ 888,410	Ch\$ 6,326,410	100.00%
Total loans	Ch\$ 5,058,302	Ch\$ 432,015	Ch\$ 888,410	Ch\$ 6,378,727	
Percentage evaluated	98.97%	100.00%	100.00%	99.18%	

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As of December 31, 2003

Category	Commercial	Consumer	Residential	Total Loans	Percentage
	Loans	Loans	Mortgage		of Evaluated
			Loans		Loans
(in millions of constant Ch\$ as of December 31, 2004)					
A	Ch\$ 2,282,846	Ch\$ 439,509	Ch\$ 842,655	Ch\$ 3,565,010	55.97%
B	2,366,548	33,119	72,203	2,471,870	38.82
B	184,242	8,565	21,619	214,426	3.37
C	67,750	7,080		74,830	1.18
D	36,605	5,226		41,831	0.66
Total evaluated loans	Ch\$ 4,937,991	Ch\$ 493,499	Ch\$ 936,477	Ch\$ 6,367,967	100.00%
Total loans	Ch\$ 4,981,817	Ch\$ 493,499	Ch\$ 936,477	Ch\$ 6,411,793	
Percentage evaluated	99.12%	100.00%	100.00%	99.32%	

As of December 31, 2004 (1)

Individual Analysis Category	Commercial	Consumer	Residential	Total Loans	Percentage
	Loans	Loans	Mortgage		of Evaluated
			Loans		Loans
(in millions of constant Ch\$ as of December 31, 2004)					
A1	Ch\$ 9,023			Ch\$ 9,023	0.18%
A2	1,520,641	Ch\$ 14,985	Ch\$ 50,452	1,586,078	31.38
A3	1,323,283	12,405	32,056	1,367,744	27.06
B	1,606,649	27,867	60,499	1,695,015	33.54
C1	184,460	6,097	9,415	199,972	3.96
C2	59,793	863	4,197	64,853	1.28
C3	27,732	329	1,000	29,061	0.57
C4	49,147	373	947	50,467	1.00
D1	34,807	250	90	35,147	0.70
D2	16,020	490	307	16,817	0.33
Subtotal evaluated loans	Ch\$ 4,831,555	Ch\$ 63,659	Ch\$ 158,963	Ch\$ 5,054,177	100.00%

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

As of December 31, 2004 (1)

Group Analysis Category	Commercial	Consumer	Residential	Total	Percentage
	Loans	Loans	Mortgage		Loans
			Loans		Loans
(in millions of constant Ch\$ as of December 31, 2004)					
A	Ch\$ 151,326	Ch\$ 572,760	Ch\$ 915,248	Ch\$ 1,639,334	89.94%
B	46,057	38,524	46,937	131,518	7.21
B-	11,047	8,638	17,340	37,025	2.03

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C	1,651	6,580		8,231	0.45
D	1,410	5,384		6,794	0.37
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Subtotal evaluated loans	Ch\$ 211,491	Ch\$ 631,886	Ch\$ 979,525	Ch\$ 1,822,902	100.00%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total evaluated loans	Ch\$ 5,043,046	Ch\$ 695,545	Ch\$ 1,138,488	Ch\$ 6,877,079	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	
Total loans	Ch\$ 5,054,878	Ch\$ 695,545	Ch\$ 1,138,488	Ch\$ 6,888,911	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	
Percentage evaluated	99.77%	100.00%	100.00%	99.83%	

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

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

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

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

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

<b>Domestic Loans</b>					
<b>As of December 31,</b>					
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>(in millions of constant Ch\$ as of December 31, 2004)</b>					
Current	Ch\$ 3,784,090	Ch\$ 3,820,988	Ch\$ 5,893,869	Ch\$ 6,047,161	Ch\$ 6,480,397
Overdue 1-29 days	13,289	17,764	27,141	21,091	27,958
Overdue 30-89 days	10,451	6,730	23,019	13,954	11,586
Overdue 90 days or more ( past due )	45,285	49,707	147,805	108,141	84,685
<b>Total loans</b>	<b>Ch\$ 3,853,115</b>	<b>Ch\$ 3,895,189</b>	<b>Ch\$ 6,091,834</b>	<b>Ch\$ 6,190,347</b>	<b>Ch\$ 6,604,626</b>
<b>Foreign Loans</b>					
<b>As of December 31,</b>					
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>(in millions of constant Ch\$ as of December 31, 2004)</b>					
Current	Ch\$ 245,245	Ch\$ 218,135	Ch\$ 284,652	Ch\$ 221,446	Ch\$ 284,285
Overdue 1-29 days		363			
Overdue 30-89 days		47			
Overdue 90 days or more ( past due )	10,526	954	2,241		
<b>Total loans</b>	<b>Ch\$ 255,771</b>	<b>Ch\$ 219,499</b>	<b>Ch\$ 286,893</b>	<b>Ch\$ 221,446</b>	<b>Ch\$ 284,285</b>

## Total Loans

As of December 31,

	2000	2001	2002	2003	2004
(in millions of constant Ch\$ as of December 31, 2004)					
Current	Ch\$ 4,029,335	Ch\$ 4,039,123	Ch\$ 6,178,521	Ch\$ 6,268,607	Ch\$ 6,764,682
Overdue 1-29 days	13,289	18,127	27,141	21,091	27,958
Overdue 30-89 days	10,451	6,777	23,019	13,954	11,586
Overdue 90 days or more ( past due )	55,811	50,661	150,046	108,141	84,685
<b>Total loans</b>	<b>Ch\$ 4,108,886</b>	<b>Ch\$ 4,114,688</b>	<b>Ch\$ 6,378,727</b>	<b>Ch\$ 6,411,793</b>	<b>Ch\$ 6,888,911</b>
Overdue loans expressed as a percentage of total loans	1.94%	1.84%	3.14%	2.23%	1.80%
Past due loans as a percentage of total loans	1.36%	1.23%	2.35%	1.69%	1.23%

We suspend the accrual of interest on any loan when there is a high risk of unrecoverability or from the first day when it becomes past due. The amount of interest that would have been recorded on overdue loans if they had been accruing interest was Ch\$5,497 million for the year ended December 31, 2004.

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

	As of December 31,				
	2000	2001	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)				
Ch\$	Ch\$ 1,658	Ch\$ 1,605	Ch\$ 5,041	Ch\$ 4,408	Ch\$ 4,209
UF	264	262	224	253	521
<b>Total</b>	<b>Ch\$ 1,922</b>	<b>Ch\$ 1,867</b>	<b>Ch\$ 5,265</b>	<b>Ch\$ 4,661</b>	<b>Ch\$ 4,730</b>

The amount of interest that we would have recorded on these loans for the year ended December 31, 2004 if these loans had been earning a market interest rate was Ch\$241 million.

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

	As of December 31,		
	2002	2003	2004
	(in millions of constant Ch\$ as of		
	December 31, 2004)		
<b>Total other restructured loans</b>	<b>Ch\$ 136,870</b>	<b>Ch\$ 127,820</b>	<b>Ch\$ 78,274</b>

During the year ended December 31, 2004, interest recorded in income on these loans amounted to Ch\$9,353 million.

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

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

	As of December 31,				
	2000	2001	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004, except for percentages)				
Total loans	Ch\$ 4,108,886	Ch\$ 4,114,688	Ch\$ 6,378,727	Ch\$ 6,411,793	Ch\$ 6,888,911
Substandard loans (1)	Ch\$ 236,387	Ch\$ 258,603	Ch\$ 426,550	Ch\$ 331,087	Ch\$ 448,367
Substandard loans as a percentage of total Loans	5.75%	6.28%	6.69%	5.16%	6.51%
Amounts past due (2)					
To the extent secured (3)	Ch\$ 41,677	Ch\$ 34,043	Ch\$ 95,762	Ch\$ 72,385	Ch\$ 57,198
To the extent unsecured	14,134	16,618	54,284	35,756	27,487
Total amount past due	Ch\$ 55,811	Ch\$ 50,661	Ch\$ 150,046	Ch\$ 108,141	Ch\$ 84,685
Amounts past due as a percentage of total loans	1.36%	1.23%	2.35%	1.69%	1.23%
To the extent secured(2)	1.01	0.83	1.50	1.13	0.83
To the extent unsecured	0.35	0.40	0.85	0.56	0.40
Allowances for loans losses as a percentage of:					
Total loans	3.02	3.43	3.51	2.87	2.23
Total loans excluding contingent loans	3.24	3.71	3.74	3.07	2.42
Total amounts past due	222.46	278.72	149.07	170.09	181.55
Total amounts past due-unsecured	878.43%	849.68%	412.05%	514.43%	559.33%

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

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

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

	December 31,				
	2000	2001	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)				
Allowances for loan losses at beginning of period	Ch\$ 116,368	Ch\$ 124,158	Ch\$ 241,002	Ch\$ 223,678	Ch\$ 183,938
Charge-offs	(29,423)	(28,786)	(114,856)	(98,535)	(99,100)
Allowances established	43,337	50,142	129,538	63,103	75,069
Allowances released(1)	(1,236)	(1,212)	(25,346)	(1,491)	(1,557)
Price-level restatement(2)	(4,888)	(3,102)	(6,660)	(2,817)	(4,608)
Allowances for loan losses at end of period	Ch\$ 124,158	Ch\$ 141,200	Ch\$ 223,678	Ch\$ 183,938	Ch\$ 153,742
Ratio of charge-offs to average loans	0.76%	0.69%	1.82%	1.53%	1.49%
Allowances for loan losses at end of period as a percentage of total loans	3.02%	3.43%	3.51%	2.87%	2.23%

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

(2) Reflects the effect of inflation on the allowances for loan losses at the beginning of each period, adjusted to constant pesos as of December 31, 2004.

As a result of an improvement in economic conditions in 2003 and in 2004, and a more effective credit and collection policy, allowances and the risk index decreased in both years. Based on the information we have available about our debtors, we believe that our allowances for loan losses are sufficient to cover known potential losses and losses inherent in a loan portfolio of this size and nature.

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

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

Year ended December 31,



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	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(in millions of constant Ch\$ as of December 31, 2004)				
Consumer loans	Ch\$ 12,104	Ch\$ 9,377	Ch\$ 23,878	Ch\$ 19,632	Ch\$ 16,879
Residential mortgage loans	1,532	3,249	6,529	15,410	11,934
Commercial loans	9,547	12,013	80,410	61,024	67,818
Leasing contracts	6,234	3,838	4,039	2,469	2,469
Foreign loans	6	309			
<b>Total</b>	<b>Ch\$ 29,423</b>	<b>Ch\$ 28,786</b>	<b>Ch\$ 114,856</b>	<b>Ch\$ 98,535</b>	<b>Ch\$ 99,100</b>

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

	Year ended December 31,				
	2000	2001	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)				
Consumer loans	Ch\$ 4,488	Ch\$ 4,868	Ch\$ 3,302	Ch\$ 6,596	Ch\$ 8,516
Residential mortgage loans	60	115	433	3,292	4,259
Commercial loans	2,687	3,127	6,872	13,459	15,584
Leasing contracts	467	1,122	984	1,061	
Investments				820	
Subtotal	Ch\$ 7,702	Ch\$ 9,232	Ch\$ 11,591	Ch\$ 25,228	Ch\$ 28,359
Recoveries and sales of loans reacquired from the Central Bank	1,983	1,054	743	798	5,377
Total	Ch\$ 9,685	Ch\$ 10,286	Ch\$ 12,334	Ch\$ 26,026	Ch\$ 33,736

**Allocation of Allowances for Loan Losses**

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

	2000				2001			
	Allowance amount <sup>(1)</sup>	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans <sup>(2)</sup>	Allowance amount <sup>(1)</sup>	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans <sup>(2)</sup>
Commercial loans	Ch\$ 63,713	1.90%	1.55%	81.72%	Ch\$ 77,874	2.36%	1.89%	80.20%
Consumer loans	9,162	4.34	0.22	5.14	11,050	4.91	0.27	5.47
Residential mortgage loans	1,728	0.32	0.04	13.14	1,886	0.32	0.05	14.33
Total allocated allowances	Ch\$ 74,603	1.82%	1.82%	100.00%	Ch\$ 90,810	2.21%	2.21%	100.00%
Leasing contracts	7,578	0.18	0.18		10,213	0.24	0.24	
Foreign loans	3,866	0.09	0.09		4,424	0.11	0.11	
Voluntary allowances	38,111	0.93	0.93		35,753	0.87	0.87	
Total allowances	Ch\$ 124,158	3.02%	3.02%		Ch\$ 141,200	3.43%	3.43%	

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	2002				2003			
	Allowance amount <sup>(1)</sup>	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans <sup>(2)</sup>	Allowance amount <sup>(1)</sup>	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans <sup>(2)</sup>
Commercial loans	Ch\$ 152,412	3.01%	2.39%	79.30%	Ch\$ 123,822	2.49%	1.93%	77.70%
Consumer loans	20,617	4.77	0.32	6.77	18,382	3.72	0.29	7.70
Residential mortgage loans	5,964	0.67	0.09	13.93	6,282	0.67	0.10	14.60
Total allocated allowances	Ch\$ 178,993	2.81%	2.81%	100.00%	Ch\$ 148,486	2.32%	2.32%	100.00%
Leasing contracts	10,985	0.17	0.17		8,480	0.13	0.13	
Foreign loans	12,418	0.20	0.20		5,901	0.09	0.09	
Voluntary allowances	21,282	0.33	0.33		21,071	0.33	0.33	
Total allowances	Ch\$ 223,678	3.51%	3.51%		Ch\$ 183,938	2.87%	2.87%	

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	2004			
	Allowance amount <sup>(1)</sup>	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans <sup>(2)</sup>
Commercial loans	Ch\$ 93,858	1.86%	1.36%	73.37%
Consumer loans	23,473	3.37	0.34	10.10
Residential mortgage loans	6,274	0.55	0.09	16.53
<b>Total allocated allowances</b>	<b>Ch\$ 123,605</b>	<b>1.79%</b>	<b>1.79%</b>	<b>100.00%</b>
Leasing contracts	5,861	0.09	0.09	
Foreign loans	4,564	0.07	0.07	
Additional allowances <sup>(3)</sup>	19,712	0.28	0.28	
<b>Total allowances</b>	<b>Ch\$ 153,742</b>	<b>2.23%</b>	<b>2.23%</b>	

(1) In millions of constant pesos as of December 31, 2004.

(2) Based on our loan classification.

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

The following table sets forth our charge-offs for 2002, 2003 and 2004 by major economic sector and provides further detail of charge-offs that have already been described in the previous discussion of allowances for loan losses:

	Year ended December 31,		
	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)		
<b>Commercial:</b>			
Agriculture	Ch\$ 3,672	Ch\$ 2,880	Ch\$ 2,857
Mining	16,401	724	747
Manufacturing	10,115	7,591	5,243
Construction	15,935	1,103	6,760
Commerce	14,433	9,184	12,530
Transport	1,417	1,581	2,967
Financial services	15,347	30,600	7,784
Community	3,090	7,361	28,930
<b>Subtotal:</b>	<b>Ch\$ 80,410</b>	<b>Ch\$ 61,024</b>	<b>Ch\$ 67,818</b>
Consumer loans	23,878	19,632	16,879
Residential mortgage loans	6,529	15,410	11,934
Leasing contracts	4,039	2,469	2,469
<b>Total</b>	<b>Ch\$ 114,856</b>	<b>Ch\$ 98,535</b>	<b>Ch\$ 99,100</b>

**Composition of Deposits and Other Commitments**

The following table sets forth the composition of our deposits and similar commitments at December 31, 2002, 2003 and 2004. See Item 4. Information on the Company Selected Statistical Information Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities for the average rate paid on each of the following deposit categories.

	December 31,		
	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)		
Current accounts	Ch\$ 1,109,977	Ch\$ 1,258,574	Ch\$ 1,424,569
Other demand liabilities	418,820	497,779	501,629
Savings accounts	179,876	163,760	142,334
Time deposits	3,440,860	3,344,338	3,521,348
Other commitments <sup>(1)</sup>	169,856	182,258	195,847
<b>Total</b>	<b>Ch\$ 5,319,389</b>	<b>Ch\$ 5,446,709</b>	<b>Ch\$ 5,785,727</b>

<sup>(1)</sup> Includes preliminary leasing accounts payable relating to purchase of equipment.

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

The following table sets forth information regarding the currency and maturity of our deposits at December 31, 2004, expressed in percentages. UF-denominated deposits are similar to Chilean peso-denominated deposits in all respects, except that the principal is readjusted periodically based on variations in the Chilean Consumer Price Index.

	<u>Ch\$</u>	<u>UF</u>	<u>Foreign Currency</u>	<u>Total</u>
Demand deposits	43.38%	5.48%	40.17%	36.68%
Savings accounts		15.42		2.46
Time deposits:				
Maturing within three months	43.98	16.24	56.45	42.11
Maturing after three but within six months	6.88	31.03	1.76	9.68
Maturing after six but within 12 months	4.49	12.89	1.33	5.18
Maturing after 12 months	1.27	18.94	0.29	3.89
<b>Total time deposits</b>	<b>56.62</b>	<b>79.10</b>	<b>59.83</b>	<b>60.86</b>
<b>Total deposits</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

The following table sets forth information regarding the currency and maturity of deposits in excess of U.S.\$100,000 at December 31, 2004:

	<u>Ch\$</u>	<u>UF</u>	<u>Foreign Currency</u>	<u>Total</u>
(in millions of constant Ch\$ as of December 31, 2004)				
Time deposits:				
Maturing within three months	Ch\$ 1,259,807	Ch\$ 212,993	Ch\$ 415,775	Ch\$ 1,888,575
Maturing after three but within six months	277,661	221,630	26,089	525,380
Maturing after six but within 12 months	99,537	46,148	5,645	151,330
Maturing after 12 months	43,917	167,595	3,441	214,953
<b>Total time deposits</b>	<b>Ch\$ 1,680,922</b>	<b>Ch\$ 648,366</b>	<b>Ch\$ 450,950</b>	<b>Ch\$ 2,780,238</b>

**Minimum Capital Requirements**

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

As of December 31,

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	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(in millions of constant Ch\$ as of December 31, 2004)		
Banco de Chile's regulatory capital	Ch\$ 585,532	Ch\$ 579,251	Ch\$ 521,905
Minimum regulatory capital required	(268,162)	(285,754)	(291,354)
Excess over minimum regulatory capital required	<u>Ch\$ 317,370</u>	<u>Ch\$ 293,497</u>	<u>Ch\$ 230,551</u>

**Table of Contents****Short-term Borrowings**

Our short-term borrowings (other than deposits) totaled Ch\$555,433 million as of December 31, 2002, Ch\$838,747 million as of December 31, 2003 and Ch\$857,622 million as of December 31, 2004.

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

	For the year ended December 31,					
	2002		2003		2004	
	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate
	(in millions of constant Ch\$ as of December 31, 2004, except for rate data)					
Investments sold under agreements to repurchase	Ch\$ 286,428	2.26%	Ch\$ 437,410	2.50%	Ch\$ 349,086	2.15%
Central Bank borrowings			25,529	2.28	107,643	0.19
Borrowings from domestic financial institutions	52,138	2.96	51,023	2.54	26,399	0.93
Foreign borrowings	184,869	1.68	273,787	1.29	340,736	1.93
Other obligations	31,998		50,998		33,758	
<b>Total short-term borrowings</b>	<b>Ch\$ 555,433</b>	<b>2.00%</b>	<b>Ch\$ 838,747</b>	<b>1.95%</b>	<b>Ch\$ 857,622</b>	<b>1.69%</b>

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

	For the year ended December 31,					
	2002		2003		2004	
	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate
	(in millions of constant Ch\$ as of December 31, 2004, except for rate data)					



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Investments sold under agreements to repurchase	Ch\$ 384,807	2.80%	Ch\$ 359,723	2.58%	Ch\$ 424,832	1.87%
Central Bank borrowings	10,111	3.61	8,544	2.59	10,066	2.06
Borrowings from domestic financial institutions	83,226	3.07	100,520	2.47	105,543	2.48
<b>Sub-total</b>	<b>Ch\$ 478,144</b>	<b>2.86%</b>	<b>Ch\$ 468,787</b>	<b>2.56%</b>	<b>Ch\$ 540,441</b>	<b>1.99%</b>
Foreign borrowings	116,319	1.84	267,445	1.77	296,700	1.34
<b>Total short-term borrowings</b>	<b>Ch\$ 594,463</b>	<b>2.66%</b>	<b>Ch\$ 736,232</b>	<b>2.27%</b>	<b>Ch\$ 837,141</b>	<b>1.76%</b>

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

	<b>Maximum 2002 month-end balance</b>	<b>Maximum 2003 month-end balance</b>	<b>Maximum 2004 month-end balance</b>
	(in millions of constant Ch\$ as of December 31, 2004)		
Investments sold under agreements to repurchase	Ch\$ 460,751	Ch\$ 437,410	Ch\$ 501,834
Central Bank borrowings	10,251	35,206	107,643
Borrowings from domestic financial institutions	141,427	122,797	133,093
Foreign borrowings	Ch\$ 216,877	Ch\$ 337,507	Ch\$ 418,943

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**Item 5. Operating and Financial Review and Prospects**

**OPERATING RESULTS**

**Introduction**

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

We prepare our audited consolidated financial statements in accordance with Chilean GAAP (including the rules of the Chilean Superintendency of Banks relating thereto), which differ in certain significant respects from U.S. GAAP. Note 28 to our audited consolidated financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP as they relate to us. It also includes a reconciliation to U.S. GAAP of net income for the years ended December 31, 2002, 2003 and 2004 and shareholders' equity at December 31, 2003 and 2004.

Pursuant to Chilean GAAP, the financial data presented in this section for all full-year periods are restated in constant pesos of December 31, 2004. See Presentation of Financial Information and note 1 to our audited consolidated financial statements.

**Overview**

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

Despite growth in the 1980s and 1990s, Chile's economy has remained smaller than the economies of neighboring countries such as Argentina and Brazil. Although Chile's economy has continued to grow in recent years, the Chilean economy's growth slowed in each of the years between 2000 and 2003. Unemployment has also remained high, averaging 9.2% in 2001, 9.0% in 2002 and 8.5% in 2003. During 2004, GDP grew 6.1%, but unemployment remained high, averaging 8.8% for the year.

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



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***Inflation***

Historically, Chile has experienced high levels of inflation which have significantly affected our financial condition and results of operations. Inflation has remained relatively stable in recent years; however, the inflation rate was 2.4% in 2004, 1.1% in 2003 and 2.8% in 2002. Our results of operations reflect the effect of inflation in the following ways:

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

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

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

*UF-denominated Assets and Liabilities.* The UF is revalued in monthly cycles. On every day in the period beginning the tenth day of the current month through the ninth day of the next month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect each day a pro rata amount of the prior calendar month's change in the Consumer Price Index. One UF was equal to Ch\$16,744.12 at December 31, 2002, Ch\$16,920.00 at December 31, 2003 and Ch\$17,317.05 at December 31, 2004. The effect of any changes in the nominal peso value of our UF-denominated assets and liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest revenue and expense. Our net interest revenue will be positively affected by inflation (and negatively affected by deflation) to the extent that our average UF-denominated assets exceed our average UF-denominated liabilities, while net interest revenue will be negatively affected by inflation (and positively affected by deflation) when average UF-denominated liabilities exceed average UF-denominated assets. Our average UF-denominated assets exceeded our average UF-denominated liabilities by Ch\$1,348,156 million during the year ended December 31, 2002, Ch\$1,124,677 million during the year ended December 31, 2003 and Ch\$1,291,520 million during the year ended December 31, 2004. See Item 4. Information on the Company Selected Statistical Information.

*Peso-denominated Assets and Liabilities.* Interest rates in Chile tend to reflect the rate of inflation during the period and expectations regarding future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to the inflation rate varies. See

Interest Rates. We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. The ratio of such deposits to average interest bearing peso-denominated liabilities was 57% during 2002, 66% during 2003 and 64% during 2004. Because a large part of such deposits are not sensitive to inflation, even a slight decline in the rate of inflation may adversely affect our net interest margin on assets funded with such deposits and even a slight increase in the rate of inflation may increase the net interest margin on such assets. See Item 4. Selected Statistical Information Interest Earning Assets and Net Interest Margin.

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*Price-Level Restatements.* Chilean GAAP requires that the effect of inflation on a bank's net monetary asset position (monetary assets less monetary liabilities) be reflected in its results of operations as a gain (or loss) from price-level restatement. A bank's net monetary asset position is determined by subtracting its net nonmonetary asset position (nonmonetary assets less nonmonetary liabilities) from shareholders' equity. As such, under Chilean GAAP, the gain (or loss) from price-level restatement in results of operations is determined by subtracting the price-level restatement adjustment of net nonmonetary assets from the price-level restatement adjustment of shareholders' equity. The inflation rate used for purposes of such adjustments is the change in the Consumer Price Index during the 12 months ended November 30 of the reported year. The change in the Consumer Price Index used for price-level restatement purposes was 3.0% in 2002, 1.0% in 2003 and 2.5% in 2004. See note 1(b) to our audited consolidated financial statements. The actual change in the Consumer Price Index was 2.8% in the year ended December 31, 2002, 1.1% in the year ended December 31, 2003 and 2.4% in the year ended December 31, 2004.

***Interest Rates***

Interest rates earned and paid on our assets and liabilities to some degree reflect inflation and expectations regarding future inflation as well as shifts in short-term interest rates related to the Central Bank's monetary policies. The Central Bank manages short-term interest rates based on its stated objectives of achieving low inflation and stable exchange rates. Because our liabilities generally re-price faster than our assets, changes in the rate of inflation or short-term interest rates are reflected in the rates of interest we pay on our liabilities before they are reflected in the interest rates we earn on our assets. Accordingly, our net interest margin on assets and liabilities is usually adversely affected in the short-term by increases in inflation or short-term interest rates and benefits in the short-term from decreases in inflation or short-term interest rates, although the existence of non-interest bearing peso-denominated demand deposits tends to mitigate both effects. See *Inflation* Peso-denominated Assets and Liabilities. In addition, because our peso-denominated liabilities have relatively short re-pricing periods, those liabilities generally are more responsive to changes in inflation or short-term interest rates than our UF-denominated liabilities.

The average real annual short-term interest rate based on the rate paid by Chilean financial institutions for 90 to 360 day Chilean peso denominated deposits was 1.94% in 2002, 1.76% in 2003 and 1.07% in 2004. The average annual real long-term interest rate based on the Chilean Central Bank's eight-year duration Chilean peso denominated bonds was 4.54% in 2002, 3.96% in 2003 and 3.52% in 2004.

***Foreign Currency Exchange Rates***

A significant portion of our assets and liabilities are denominated in foreign currencies, principally U.S. dollars, and we historically have maintained and may continue to maintain gaps between the balances of such assets and liabilities. The gap between foreign currency-denominated assets and foreign currency-denominated liabilities was a net asset position of Ch\$75,396 million at December 31, 2002, Ch\$23,274 million at December 31, 2003 and Ch\$36,541 at December 31, 2004. See note 20 to our audited consolidated financial statements. This gap includes assets and liabilities denominated in foreign currencies and assets and liabilities denominated in Chilean pesos that contain repayment terms linked to changes in foreign currency exchange rates. Because foreign currency-denominated assets and liabilities, as well as interest earned or paid on such assets and liabilities and gains (losses) realized upon the sale of such assets, are translated into pesos in preparing our audited consolidated financial statements, our reported income is affected by changes in the value of the peso with respect to foreign currencies, primarily the U.S. dollar. For their part, adjustments to U.S. dollar-indexed assets are reflected as adjustments in net interest earnings and offset results in the foreign exchange position. The exchange rate variation over capital and reserves of our foreign branches is adjusted against equity and not against net income.

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### **Critical Accounting Estimates**

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

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

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

Chilean banks are required to maintain loan loss allowances in amounts determined in accordance with the regulations issued by the Chilean Superintendency of Banks. Under these regulations, we must classify our portfolio based on payment capability. The minimum amount of required loan loss allowances are determined based on fixed percentages of estimated loan losses assigned to each category.

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

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

On January 1, 2004, in accordance with Circular No. 3,246 issued by the Chilean Superintendency of Banks, we adopted a new methodology to determine our loan loss allowances. This new regulation did not adversely affect our financial position or results of operations. A detailed description of this accounting policy is discussed in Item 4. Information on the Company Regulation and Supervision Allowances for Loan Losses and in notes 1 and 28 to our audited consolidated financial statements.

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

A portion of our assets and liabilities are carried at fair value. Under both Chilean GAAP and U.S. GAAP financial instruments are stated at fair value, except for those classified as held-to-maturity under U.S. GAAP, which are carried at amortized cost. Under U.S. GAAP, derivative

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financial instruments are recorded at fair value and assets received in lieu of payment are recorded at fair value less their estimated cost of sale. Fair values are based on quoted market prices or, if not available, on internally developed pricing models informed by independently obtained market information. If market information is limited or in some instances not available, management applies its professional judgment. Other factors that may also affect estimates are incorrect model assumptions, market dislocations and unexpected correlations. Notwithstanding the level of subjectivity inherent in determining fair value, we believe our estimates of fair value are adequate. The use of different models or assumptions could lead to changes in our reported results.

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### ***Price-level restatement***

Chilean GAAP requires that financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method prescribes that the historical cost of all non-monetary accounts be restated for general price-level changes between the date of origin of each item and the year-end.

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

For comparative purposes, the historical December 31, 2002 and 2003 audited consolidated financial statements and their accompanying notes have been presented in constant Chilean pesos as of December 31, 2004. As described in note 1(s) of our audited consolidated financial statements, certain balances of previous years' financial statements have been reclassified to conform with the present year presentation.

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

### ***Goodwill***

Under U.S. GAAP, we have significant intangible assets related to goodwill. We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other acquired intangibles, at fair value as required by SFAS No. 141, published by FASB. These include amounts pushed down from our parent Quiñenco S.A.

Under SFAS No. 142, goodwill must be allocated to reporting units and tested for impairment. We test goodwill for impairment annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test. Impairment testing is performed at the reporting-unit level, which is generally one level below the six major business segments identified in note 28 (x) to our audited consolidated financial statements. The first part of the test is a comparison at the reporting unit level of the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value is less than the carrying value, then the second part of the test is conducted to measure the amount of potential goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared to the carrying amount of goodwill recorded in our financial records. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, then we would recognize an impairment loss in the amount of the difference, which would be recorded as a charge against net income.

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



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Goodwill was not impaired as of December 31, 2003 or 2004, nor was any goodwill written-off during the years ended December 31, 2002, 2003 and 2004.

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The initial goodwill and intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future using a discounted cash flow analysis. Additionally, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine. Events and factors that may significantly affect the estimates include competitive forces, customer behavior and attrition, changes in revenue growth trends, cost structures and technology and changes in interest rates and specific industry or market sector conditions. Impairment is recognized earlier whenever warranted. For a further discussion of accounting practices for goodwill under U.S. GAAP, see note 28 to our audited consolidated financial statements.

### **Changes in Accounting Principles**

On January 1, 2004, in accordance with Circular No 3,246 of the Chilean Superintendency of Banks, the new standards for determining loan loss provisions established in Chapter 7-10 of the Superintendency's accounting rules became effective. The application of these new criteria for determining provisions did not have a significant effect on the financial situation of our subsidiaries presented in the consolidated financial statements or us. To comply with the amended regulations, we redesignated the voluntary provisions recorded as of December 31, 2003 to the additional provisions category in conformity with the amended regulations.

In accordance with Circular No. 3,196, issued by the Chilean Superintendency of Banks, effective October 31, 2002, we modified our accounting treatment of financial investments in mortgage finance bonds issued by us. This change consisted of subtracting the amount recorded for mortgage finance bonds issued by us from assets, and subtracting the respective mortgage finance bonds obligation from liabilities. Similarly, the difference between the amount deducted from related assets and liabilities was recognized under other assets and is amortized using the straight-line method based on the term of the obligation. As of December 31, 2003 and 2004, we recorded a net amount of Ch\$2,138 million and Ch\$2,152 million, respectively, under Other assets.

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

Chilean GAAP varies in certain important respects from U.S. GAAP, including some of the methods that are used to measure the amounts shown in the audited consolidated financial statements, additional disclosures required by U.S. GAAP and the accounting treatment of the merger. Those differences, as well as other significant differences between Chilean GAAP and U.S. GAAP, are described in greater detail in note 28 to our audited consolidated financial statements.

### **Results of Operations for the Years Ended December 31, 2002, 2003 and 2004**

The following section discusses the results of operations for the years ended December 31, 2002, 2003 and 2004. To the extent that it is available and is useful in analyzing our results, we have included information based on the business areas that we use for internal reporting. We also present our results on a consolidated basis.

We use a business area-based profitability system to manage our business. This system allows us to extract income and expense information by client and also allows us to view information by office, branch or business area. The profitability system uses the accounting balances and the interest rates as agreed upon with the client. In order to assess the income per transaction, the system compares the interest rate agreed upon with the client with our own cost of funds. We use internal cost of funds tables for various transactions which are updated daily. From these tables we are able to determine operating costs per transaction or per client and these costs are then allocated to our various business areas. The system has

been developed in recent years, and has been subject of continued improvement resulting in cost allocation changes.

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Our business is organized into the following areas:

large corporations;

middle market companies;

international banking;

retail banking;

treasury and money market operations; and

operations through subsidiaries.

The accounting policies used for the business areas are those used for our consolidated management reports. Corporate and personal customers are assigned to account executives who work exclusively within one business area. Some costs are allocated to the business areas and others are split between two or more business areas based on a single transaction. Thereafter, any unallocated costs are included as "other" in order to arrive at the consolidated balance sheet and income statement.

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

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

The results associated with our gap management (mismatches) have been allocated among different business areas.

Our management model used to measure the performance of our business areas considers results that are directly related to performance and not all overhead expenses of corporate and support departments, additional allowances (previously referred to as "voluntary allowances" under guidelines prior to 2004), taxes and other non-operating income and expenses.

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

We allocate theoretical rental costs to each branch we own based on market rental values so that the results of these branches are comparable to rental-property branches.



**Table of Contents****Net Income Before Tax by Business Area**

The following table sets forth net income before tax for each business area for each of the years ended December 31, 2002, 2003 and 2004. The line item *Other* includes the effect of conforming internal accounting policies to Chilean GAAP and a number of non-allocated costs, such as human resources related expenses, additional provisions (previously referred to as *voluntary provisions*) and depreciation costs. For internal reporting purposes, we control and monitor these costs separately and do not include them in the determination of business area profitability. Also included within *Other* are specific portions of income such as rental income.

	Year Ended December 31,			% Increase (Decrease)	
	2002	2003	2004	2002/2003	2003/2004
	(in millions of constant Ch\$ as of December 31, 2004, except for percentages)				
Large corporations	Ch\$ 10,546	Ch\$ 51,849	Ch\$ 38,794	391.6%	(25.2)%
Middle market companies	24,528	39,109	36,537	59.4	(6.6)
International banking	(6,900)	12,507	6,756		(46.0)
Retail banking	25,773	37,475	49,008	45.4	30.8
Treasury and money market operations	23,869	19,620	25,091	(17.8)	27.9
Subsidiaries	13,974	21,798	28,181	56.0	29.3
Other	(38,494)	(34,291)	(13,390)	(10.9)	(61.0)
Net income before tax	Ch\$ 53,296	Ch\$ 148,067	Ch\$ 170,977	177.8%	15.5%

*2003 and 2004.* The 15.5% increase in net income before taxes in 2004 as compared to 2003 was primarily attributable to a 42.8% increase in net interest revenue, a 29.1% increase in fees and a 29.6% increase in recovery of loans that had previously been charged off. These increases were mainly due to the growth of the Chilean economy, an improvement in our asset mix and the further integration of our subsidiaries businesses with our core business.

*2002 and 2003.* The 177.8% increase in net income before taxes in 2003 as compared to 2002 was primarily attributable to a significant decrease in provisions for loan losses, a significant increase in fees and income from services, a decrease in operating expenses and an increase in recoveries of loans that had previously been charged-off. These results were primarily attributable to the recovery of the Chilean economy, which positively impacted the financial conditions of our clients and the quality of our overall loan portfolio and the merger, which resulted in costs efficiencies and higher business volumes.

*Large Corporations. 2003 and 2004.* The 25.2% decrease in the large corporations business area's net income before taxes in 2004 was primarily attributable to an 11.9% decrease in operating revenues, which was primarily attributable to a decrease in lending spreads and losses from the sale of corporate loans. The decrease in net income before taxes was also explained by a 12.4% increase in operating expenses primarily due to marketing and technological costs and an 11.8% increase in provisions for loan losses.

*2002 and 2003.* The almost five-fold increase in the large corporations business area's net income before taxes in 2003 was primarily attributable to a 73.6% decrease in provisions for loan losses. To a lesser extent, the increase in net income before taxes was also attributable to a decrease in charge-offs on assets received in lieu of payments and an increase in fee income from financial services. These factors more than offset a small decrease in net interest revenue, which was primarily attributable to a decrease in inflation in 2003.

*Middle Market Companies. 2003 and 2004.* The 6.6% decrease in the middle market companies business area's income before taxes in 2004 was primarily attributable to a 28.8% increase in provisions for loan losses, from Ch\$17,601 million in 2003 to Ch\$22,669 million in 2004, which was primarily due to increased growth, an increase in the risk index of the loan portfolio and a 4% increase in operating expenses during 2004.

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*2002 and 2003.* The 59.4% increase in the middle market companies business area's net income before taxes in 2003 was primarily attributable to a decrease in provisions for loan losses and, to a lesser extent, lower charge offs on assets received in lieu of payment.

*International Banking. 2003 and 2004.* The 46% decrease in the international banking business area's net income before taxes in 2004 as compared to 2003 was primarily attributable to the non-recurring earnings generated in 2003 from the sale of Latin American investment securities held at our New York branch. This decrease was partially offset by lower operating expenses during 2004.

*2002 and 2003.* In 2003, the international banking business area recorded net income before taxes of Ch\$12,507 million, as compared to a net loss of Ch\$6,900 million recorded in 2002. The change from a net loss to net income was primarily attributable to earnings obtained from the sale of Latin American investment securities held at our New York branch that had been previously written-off. The change from a net loss to net income was also attributable to a decrease in operating expenses.

*Retail Banking. 2003 and 2004.* The 30.8% increase in the retail banking business area's net income before taxes for in 2004 was primarily attributable to an 18.6% increase in operating revenues from Ch\$140,725 million in 2003 to Ch\$166,877 million in 2004, which was primarily attributable to a 16.2% growth in the retail banking business area's loan portfolio and, to a lesser extent, higher fee income. These factors were partially offset by higher operating expenses.

*2002 and 2003.* The 45.4% increase in the retail banking business area's net income before taxes in 2003 was primarily attributable to lower provisions for loan losses and an increase in recoveries of loans that had previously been charged-off. Additionally, increased loan volumes and a decrease in operating expenses more than offset a reduction in spreads on our loans and the negative effect of the decrease in the inflation rate.

*Treasury and Money Market Operations. 2003 and 2004.* The 27.9% increase in the treasury and money market operations business area's net income before taxes in 2004 was primarily attributable to increased income from our investment portfolio, which was primarily attributable to an increase in the value of our UF-denominated assets as a result of increased inflation and a decrease in Chilean-peso denominated costs of funds resulting from a decrease in the short term reference rate from 2.73% in 2003 to 1.87% in 2004.

*2002 and 2003.* The 17.8% decrease in the treasury and money market operations business area's net income before taxes in 2003 was primarily attributable to a slight increase in long-term interest rates and decreased interest rate volatility, which reduced our earnings from our Chilean investment portfolio as compared to 2002.

*Operations through Subsidiaries. 2003 and 2004.* The 29.3% increase in net income before taxes from our subsidiaries in 2004 was primarily attributable to the 23.8% increase in fee income from their operations from Ch\$37,428 million in 2003 to Ch\$46,335 million in 2004, which resulted in a 21% increase in operating revenues. The increase in our subsidiaries' fee income was also a result of increased cross-selling of products by our subsidiaries, as well as the growth of the Chilean economy. In particular, fee income from our securities brokerage subsidiary increased 24.7% during 2004. The 80% increase in fee income from services generated by our financial advisory services subsidiary was primarily attributable to fee income from investment banking and advisory services.

*2002 and 2003.* The 56.0% increase in net income before taxes from our subsidiaries in 2003 was primarily attributable to significant growth in fee income from our subsidiary operations. The increase was primarily attributable to an increase in the trading volume of stocks and U.S. dollars traded by our securities brokerage subsidiary, an increase in the average amount of funds managed by our mutual fund management



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subsidiary and an increase in the net income of our factoring subsidiary, which was primarily the result of increased volume and a decrease in its provisions for loan losses.

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

The following table sets forth the principal components of our net income, as detailed in our audited consolidated financial statements for the years ended December 31, 2002, 2003 and 2004:

	Year Ended December 31,			% Increase (Decrease)	
	2002	2003	2004	2002/2003	2003/2004
(in millions of constant Ch\$ as of December 31, 2004, except for percentages)					
Net interest revenue	Ch\$ 380,546	Ch\$ 230,082	Ch\$ 328,472	(39.5)%	42.8%
Provisions for loan losses	(104,192)	(61,612)	(73,512)	(40.9)	19.3
Fees and income from services, net	78,733	98,251	126,842	24.8	29.1
Other operating income (loss), net	(31,621)	98,801	14,509		(85.3)
Other income and expenses, net:					
Loan loss recoveries	12,334	26,026	33,736	111.0	29.6
Other income and expenses, net	(15,789)	(11,785)	(11,301)	(25.4)	(4.1)
Minority interest	(1)	(2)	(1)	100.0	(50.0)
Operating expenses	(256,780)	(227,557)	(240,302)	(11.4)	5.6
Net loss from price-level restatement	(9,934)	(4,137)	(7,466)	(58.4)	80.5
Net income before income taxes	53,296	148,067	170,977	177.8	15.5
Income taxes	1,194	(14,250)	(18,349)		28.8
Net income	Ch\$ 54,490	Ch\$ 133,817	Ch\$ 152,628	145.6%	14.1%

*2003 and 2004.* Our net income for 2004 was Ch\$152,628 million, an increase of 14.1% from Ch\$133,817 million in 2003, primarily reflecting a 42.8% increase in net interest revenue, a 29.1% increase in fee income and a 29.6% increase in loan loss recoveries. These factors were partially offset by a decrease in other operating income, net, an increase in operating expenses and increased provisions for loan losses.

*2002 and 2003.* Our net income for 2003 was Ch\$133,817 million, an increase of 146% from Ch\$54,490 million in 2002, which primarily reflected a 40.9% decrease in provisions for loan losses, a 24.8% increase in fee income, a change from other operating loss, net of Ch\$31,621 million in 2002 to other operating income, net of Ch\$98,801 million in 2003, an 11.4% decrease in operating expenses and an increase in the recovery of loans that had previously been charged-off. These factors were partially offset by lower net interest revenue and higher income taxes.

**Net Interest Revenue**

The tables included under the headings **Interest Revenue** and **Interest Expense** set forth information regarding our consolidated interest revenue and expenses and average interest earning assets and average interest bearing liabilities for the years ended December 31, 2002, 2003 and 2004. This information is derived from the tables included elsewhere in this annual report under **Item 4. Information on the Company Selected Statistical Information** and is qualified in its entirety by reference to such information.

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	Year Ended December 31,			% Increase (Decrease)	
	2002	2003	2004	2002/2003	2003/2004
(in millions of constant Ch\$ as of December 31, 2004, except for percentages)					
Interest revenue	Ch\$ 714,018	Ch\$ 439,422	Ch\$ 543,372	(38.5)%	23.7%
Interest expense	(333,472)	(209,340)	(214,900)	(37.2)	2.7
Net interest revenue	Ch\$ 380,546	Ch\$ 230,082	Ch\$ 328,472	(39.5)%	42.8%
Net interest margin(1)	4.52%	2.75%	3.84%		

(1) Net interest margin is net interest revenue divided by average interest earning assets.

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The following table sets forth the effect on our net interest revenue of changes in the average volume of interest earning assets and interest bearing liabilities and the effect of average nominal interest rates on interest earning assets and interest bearing liabilities during the periods indicated:

	Increase (Decrease)	
	2002/2003	2003/2004
	(in millions of constant Ch\$ as of December 31, 2004)	
Due to changes in average volume of interest earning assets and interest bearing liabilities	Ch\$ 40,606	Ch\$ 48,800
Due to changes in average nominal interest rates of interest earning assets and interest bearing liabilities	(191,070)	49,590
<b>Net change</b>	<b>Ch\$ (150,464)</b>	<b>Ch\$ 98,390</b>

*2003 and 2004.* Net interest revenue increased by 42.8% from Ch\$230,082 million in 2003 to Ch\$328,472 million in 2004, primarily as a result of a 2.2% increase in average interest earning assets and an increase of 109 basis points (one basis point equals one one-hundredth of a percent) in net interest margin (net interest revenue divided by average interest earning assets), from 2.75% in 2003 to 3.84% in 2004. The increase in net interest margin was primarily the result of:

an increase in the inflation rate, which resulted in higher nominal rates on the portion of UF-denominated interest earning assets financed by nominal interest bearing liabilities and non-interest bearing liabilities;

a favorable change in our asset mix towards higher-yielding loans, such as commercial loans, mortgage loans financed by our general borrowings, factoring loans, lease contracts and consumer loans, and segments which reflected a slight increase in lending spreads;

an improved funding mix, reflected in the improvement of the ratio of average interest bearing liabilities to average interest earning assets from 73.0% in 2003 to 71.1% in 2004; and

a reduced negative impact of the 6.6% appreciation of the Chilean peso against the U.S. dollar in 2004, as compared to the 15.9% appreciation in 2003, as we maintained a net asset position in assets and liabilities denominated in Chilean pesos, readjusted in accordance with changes in the U.S. dollar exchange rate (this position is usually hedged with a net liability position in U.S. dollars and, consequently, decreased our net interest revenue, but originated accounting gains shown in the foreign exchange transaction line item in 2004).

*2002 and 2003.* Net interest revenue decreased by 39.5% from Ch\$380,546 million in 2002 to Ch\$230,082 million in 2003 primarily as a result of a decrease of 177 basis points (one basis point equals one one-hundredth of a percent) in our net interest margin and, to a lesser extent, a 0.5% decrease in the average volume of interest earning assets. Our net interest margin decreased from 4.52% in 2002 to 2.75% in 2003 primarily as a result of:

the impact of the 15.9% appreciation of the Chilean peso against the U.S. dollar in 2003, as we maintained a higher net asset position in assets and liabilities denominated in Chilean pesos, readjusted in accordance with changes in the U.S. dollar exchange rate, thus

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reducing our net interest revenue. In 2003, we also maintained a net liability position in U.S. dollars which partially offset the decrease in net interest revenue and increased the foreign exchange transaction line item;

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a decrease in the inflation rate (from 2.8% in 2002 to 1.1% in 2003), which resulted in lower nominal rates on the portion of interest earning assets financed by non-interest bearing liabilities; and

an absence of significant repricing benefits during 2003, as the Central Bank left its benchmark interest rate unchanged at 2.75% between February and December 11, 2003, which reduced our net interest margin as compared to 2002. During 2002, successive decreases in interest rates benefited the 2002 net financial margin as our interest bearing liabilities have a shorter repricing period than our interest earning assets.

The 0.5% decrease in average interest earning assets in 2003 was primarily the result of a decrease in the amount of foreign currency denominated regulatory reserves we are required to maintain, and a decrease in average financial investments. We reduced the level of such regulatory reserves and financial investments in response to the Central Bank's reduction in May 2003 of its foreign currency denominated demand and time deposits requirements.

**Interest Revenue**

The following table sets forth information regarding our interest revenue and average interest earning assets for the years ended December 31, 2002, 2003 and 2004:

	Year Ended December 31,			% Increase (Decrease)	
	2002	2003	2004	2002/2003	2003/2004
	(in millions of constant Ch\$ as of December 31, 2004, except for percentages)				
Interest revenue(1)	Ch\$ 714,018	Ch\$ 439,422	Ch\$ 543,372	(38.5)%	23.7%
Average interest earning assets:					
Commercial loans(2)	Ch\$ 3,122,288	Ch\$ 3,242,090	Ch\$ 3,386,304	3.8	4.4
Consumer loans	404,440	432,409	634,717	6.9	46.8
Mortgage loans(3)	1,274,401	1,186,079	1,000,958	(6.9)	(15.6)
Foreign trade loans	633,628	670,685	682,913	5.8	1.8
Interbank loans	102,931	85,812	45,174	(16.6)	(47.4)
Past due loans(4)	149,847	138,734	98,962	(7.4)	(28.7)
Contingent loans(5)	379,523	404,693	476,686	6.6	17.8
Leasing contracts	247,672	271,871	304,093	9.8	11.9
Total loans	Ch\$ 6,314,730	Ch\$ 6,432,373	Ch\$ 6,629,807	1.9%	3.1%
Financial investments(6)	1,884,350	1,823,648	1,834,212	(3.2)	0.6
Interbank deposits	220,830	123,063	96,720	(44.3)	(21.4)
Total	Ch\$ 8,419,910	Ch\$ 8,379,084	Ch\$ 8,560,739	(0.5)%	2.2%
Average rates earned on total interest earning assets(7):					
Average nominal rates	8.48%	5.24%	6.35%		
Average real rates	7.82%	4.89%	2.38%		

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- (1) Interest revenue includes fees we charge in respect of contingent loans.
- (2) Excludes leasing contracts.
- (3) Includes residential and general purpose mortgage loans.
- (4) Includes interest accrued and unpaid on principal until the date on which payment becomes overdue.
- (5) Consists of unfunded letters of credit, guarantees, performance bonds and other unfunded commitments.
- (6) Financial investments includes primarily bonds issued by the Central Bank and foreign governments.
- (7) See Item 4. Information on the Company Selected Statistical Information Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities.

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The following table sets forth the effect on our interest revenue of changes in (1) the average volume of interest earning assets and (2) the average nominal interest rates on interest earning assets, during the periods presented in the preceding table:

	Increase (Decrease)	
	2002/2003	2003/2004
	(in millions of constant Ch\$ as of December 31, 2004)	
Effect due to changes in average volume of interest earning assets	Ch\$ 7,103	Ch\$ 44,659
Effect due to changes in average nominal interest rates of interest earning assets	(281,699)	59,291
<b>Net change</b>	<b>Ch\$ (274,596)</b>	<b>Ch\$ 103,950</b>

*2003 and 2004.* Interest revenue increased by 23.7% from Ch\$439,422 million in 2003 to Ch\$543,372 million in 2004, primarily as a result of an increase in average nominal rates earned and a 2.2% increase in average interest earning assets from Ch\$8,379,084 million in 2003 to Ch\$8,560,739 million in 2004, primarily as a result of higher loan balances. Average nominal interest rates earned increased from 5.24% in 2003 to 6.35% in 2004, primarily as a result of an increase in the inflation rate from 1.1% in 2003 to 2.4% in 2004 and successive increases of the Chilean Central Bank's nominal reference rates (from 1.75% as of February 2004 to 2.25% as of December 2004).

*2002 and 2003.* Interest revenue decreased by 38.5% from Ch\$714,018 million in 2002 to Ch\$439,422 million in 2003 primarily as a result of a decrease in the average nominal interest rates earned from 8.48% in 2002 to 5.24% in 2003. The decrease in average nominal interest rates earned was primarily as a result of a decrease in the inflation rate (from 2.8% in 2002 to 1.1% in 2003) and in the interest rates on Chilean peso-denominated interest earning assets. Average interest earning assets decreased slightly from Ch\$8,419,910 million in 2002 to Ch\$8,379,084 million in 2003 as a result of a reduction in the Central Bank's foreign currency-denominated demand and time deposits requirements.



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

The following table sets forth information regarding our interest expense and average interest bearing liabilities for the years ended December 31, 2002, 2003 and 2004:

	Year ended December 31,			% Increase (Decrease)	
	2002	2003	2004	2002/2003	2003/2004
(in millions of constant Ch\$ as of December 31, 2004, except for percentages)					
Interest expense	Ch\$ 333,472	Ch\$ 209,340	Ch\$ 214,900	(37.2)%	2.7%
Average interest bearing liabilities:					
Time deposits(1)	Ch\$ 3,640,906	Ch\$ 3,413,951	Ch\$ 3,466,036	(6.2)	1.5
Savings accounts	173,446	176,967	146,778	2.0	(17.1)
Total Central Bank borrowings	62,674	69,949	90,259	11.6	29.0
Investments sold under agreements to repurchase	384,807	359,723	424,832	(6.5)	18.1
Mortgage finance bonds	1,312,999	1,051,414	914,065	(19.9)	(13.1)
Other interest bearing liabilities(2)	775,279	1,040,913	1,045,957	34.3	0.5
<b>Total</b>	<b>Ch\$ 6,350,111</b>	<b>Ch\$ 6,112,917</b>	<b>Ch\$ 6,087,927</b>	<b>(3.7)%</b>	<b>(0.4)%</b>
Average rates paid on total interest bearing liabilities(3):					
Average nominal rates	5.25%	3.42%	3.53%		
Average real rates	4.21%	(1.89)%	(0.67)%		
Average (Chilean peso-denominated) non-interest bearing demand deposits	Ch\$ 1,633,578	Ch\$ 1,873,627	Ch\$ 2,088,509	14.7%	11.5%

(1) Includes interest-earning demand deposits.

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

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

The following table sets forth the effect on our interest expense from changes in (1) average volume of interest bearing liabilities and (2) average nominal interest rates paid on interest bearing liabilities, during the periods presented:

	Increase (Decrease)	
	2002/2003	2003/2004
(in millions of constant Ch\$ as of December 31, 2004)		

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Effect due to changes in average volume of interest bearing liabilities	Ch\$ (33,503)	Ch\$ (4,141)
Effect due to changes in average nominal interest rates of interest bearing liabilities	(90,629)	9,701
	_____	_____
Net change	Ch\$ (124,132)	Ch\$ 5,560
	_____	_____

*2003 and 2004.* Interest expense increased by 2.7% from Ch\$209,340 million in 2003 to Ch\$214,900 million in 2004, primarily as a result of an increase in the average nominal interest rates paid from 3.42% in 2003 to 3.53% in 2004. The increase in average nominal interest rates was partially offset by the 0.4 % decrease in average interest bearing liabilities from Ch\$6,112,917 million in 2003 to Ch\$6,087,927 million in 2004, primarily as a result of an 11.5% increase in average non-interest bearing demand deposits denominated in Chilean pesos.

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2002 and 2003. Interest expense decreased by 37.2% from Ch\$333,472 million in 2002 to Ch\$209,340 million in 2003. The decrease was primarily attributable to a significant decrease in average nominal interest rates paid, from 5.25% in 2002 to 3.42% in 2003, and, to a lesser extent, by the impact of a 3.7% decrease in the average volume of interest bearing liabilities, from Ch\$6,350,111 million in 2002 to Ch\$6,112,917 million in 2003, primarily as a result of a decrease in mortgage finance bonds, investments sold under agreements to repurchase and time deposits. The decrease in the average nominal interest rate paid was primarily attributable to lower inflation and lower real interest rates paid on Chilean peso-denominated liabilities.

**Provisions for Loan Losses**

Chilean banks are required to maintain allowances to cover possible credit losses in accordance with regulations issued by the Chilean Superintendency of Banks. Effective as of January 1, 2004, the Chilean Superintendency of Banks modified the procedure used to calculate a financial institution's required allowances. The application of such amended regulations did not result in any material increase in our allowance for loan losses. According to regulations of the Chilean Superintendency of Banks applicable to such periods, the amount of provisions charged to income in any period consists of net provisions for possible loan losses. See Item 4. Information on the Company Regulation and Supervision and note 7 to our audited consolidated financial statements.

The following table sets forth information with respect to our provisions and allowances for loan losses and charge-offs for each of the years ended December 31, 2002, 2003 and 2004:

	Year Ended December 31,			% Increase (Decrease)	
	2002	2003	2004	2002/2003	2003/2004
(in millions of constant Ch\$ as of December 31, 2004, except for percentages)					
<b>Provisions:</b>					
Total provisions for loan losses	Ch\$ 104,192	Ch\$ 61,612	Ch\$ 73,512	(40.9)%	19.3%
<b>Charge-offs:</b>					
Total charge-offs	114,856	98,535	99,100	(14.2)	0.6
<b>Loan loss recoveries:</b>					
Total loan loss recoveries	12,334	26,026	33,736	111.0	29.6
Net charge-offs	102,522	72,509	65,364	(29.3)	(9.9)
<b>Other asset quality data:</b>					
Total loans	Ch\$ 6,378,727	Ch\$ 6,411,793	Ch\$ 6,888,911	0.5	7.4
Consolidated risk index	3.00%	2.36%	2.23%		
Unconsolidated risk index	3.10%	2.41%	2.23%		
Allowances for loan losses(1)	Ch\$ 223,678	Ch\$ 183,938	Ch\$ 153,742	(17.8)%	(16.4)%
Allowances for loan losses as a percentage of total loans	3.51%	2.87%	2.23%		

- (1) Allowances for loan losses includes additional loan loss allowances (previously referred to as voluntary allowances under guidelines prior to 2004) greater than those required by the Chilean Superintendency of Banks. See Item 4. Information on the Company Regulation and Supervision Allowances for Loan Losses and Item 4. Information on the Company Regulation and Supervision Additional Allowances.

2003 and 2004. Our overall provisions for loan losses increased by 19.3% from Ch\$61,612 million in 2003 to Ch\$73,512 million in 2004, primarily as a result of the 7.4% growth in the loan portfolio and the risk classification downgrade of certain corporate clients primarily concentrated in the construction sector. Provisions for loan losses represented approximately 1.11% of average loans in 2004, a small increase from the 0.96% in 2003. On a consolidated basis, our risk index decreased from 2.36% in 2003 to 2.23% in 2004.

*2002 and 2003.* Our overall provisions for loan losses decreased by 40.9% from Ch\$104,192 million in 2002 to Ch\$61,612 million in 2003, which primarily reflected the establishment of significant provisions in 2003 that were not in effect in 2002 and the growth of the Chilean economy. The decrease in our overall

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provisions for loan losses were also attributable to the 15.9% appreciation of the Chilean peso against the U.S. dollar, which resulted in a decrease in the amount of our Chilean peso-denominated provisioning for foreign currency-denominated loans. As a result, the ratio of provisions to average loans decreased to 0.96% in 2003 from 1.65% in 2002. Our consolidated risk index, changed from 3.00% at the end of 2002, to 2.36% as of December 31, 2003.

**Fees and Income from Services, Net**

The following table sets forth certain components of our fees and income from services (net of fees paid to third parties that provide support for those services, principally fees relating to sales force and receipts and collection services provided to us) for the years ended December 31, 2002, 2003 and 2004:

	Year Ended December 31,			% Increase (Decrease)	
	2002	2003	2004	2002/2003	2003/2004
	(in millions of constant Ch\$ as of December 31, 2004, except for percentages)				
Credit cards	Ch\$ 6,622	Ch\$ 8,632	Ch\$ 11,595	30.4%	34.3%
Sight accounts and ATMs	9,616	8,374	10,432	(12.9)	24.6
Demand deposits and overdrafts	20,893	22,200	24,037	6.3	8.3
Credit lines	5,158	5,659	6,747	9.7	19.2
Mutual funds	12,248	13,600	18,616	11.0	36.9
Stock brokerage	3,716	9,533	12,083	156.5	26.7
Collection services	2,675	2,946	3,561	10.1	20.9
Receipts and payment of services	5,891	7,351	7,960	24.8	8.3
Collection of over-due loans	6,558	8,837	8,569	34.8	(3.0)
Income and revenue from goods received in lieu of payment	1,261	2,488	3,874	97.3	55.7
Letters of credit, guarantees, collaterals and other contingent loans	4,184	4,073	5,148	(2.7)	26.4
Insurance	6,294	9,596	14,236	52.5	48.4
Financial advisory services	1,977	5,484	4,632	177.4	(15.5)
Foreign trade and currency exchange	2,300	3,340	3,409	45.2	2.1
Prepaid loans	1,238	2,018	3,317	63.0	64.4
Leasing	1,231	1,151	1,539	(6.5)	33.7
Factoring	301	750	584	149.2	(22.1)
Custody and trust services	609	934	1,399	53.4	49.8
Sales force expenses	(8,767)	(11,135)	(11,193)	27.0	0.5
Teller services expenses	(2,834)	(3,252)	(3,388)	14.7	4.2
Cobranding expenses	(3,149)	(6,095)	(3,633)	93.6	(40.4)
Other	711	1,767	3,318	148.5	87.8
<b>Total</b>	<b>Ch\$ 78,733</b>	<b>Ch\$ 98,251</b>	<b>Ch\$ 126,842</b>	<b>24.8%</b>	<b>29.1%</b>

2003 and 2004. Fees and income from services, net increased by 29.1% from Ch\$98,251 million in 2003 to Ch\$126,842 million in 2004, primarily as a result of an increase in fees generated from mutual funds, insurance and stock brokerage related products, credit cards, checking accounts, overdrafts, sight accounts and ATM transactions. Fee income accounted for 27.0% of operating revenues during 2004, a decrease from 23.0% in 2003, primarily as a result of the improved quality and increased quantity of fee generating products through alliances, promotions, product innovations and expanded distribution.

*2002 and 2003.* Fees and income from services, net increased by 24.8% from Ch\$78,733 million in 2002 to Ch\$98,251 million in 2003. The increase in 2003 was primarily attributable to the improved performance of our stock brokerage subsidiary, an increase in financial advisory service fees, additional fee income from our insurance business and from Socofin S.A., our collection services subsidiary, increased fee income associated with checking accounts and sight accounts (primarily as a result of an increase in the number of these accounts), a new fee structure for overdrafts and increased credit cards fees.

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

Other operating income (loss), net, consists of net gains and losses from trading activities and net gains and losses from foreign exchange transactions. Trading results include gains and losses realized on the sale of financial investments as well as gains and losses arising from marking financial investments to market at period-end. Net gains and losses from foreign exchange transactions include gains and losses realized upon the sale of foreign currency and foreign exchange derivatives and gains and losses arising from the period-end translation of foreign currency-denominated assets and liabilities into pesos. Foreign exchange results do not include net adjustments on U.S. dollar-indexed domestic currency transactions, or the exchange rate variation on foreign branches' capital and reserves. Foreign exchange results do include existing interest rate differences in currency derivatives.

The following table sets forth certain components of our other operating income (loss), net, in the years ended December 31, 2002, 2003 and 2004:

	Year Ended December 31,			% Increase (Decrease)	
	2002	2003	2004	2002/2003	2003/2004
	(in millions of constant Ch\$ as of December 31, 2004, except for percentages)				
Gains (losses) on trading activities, net	Ch\$ 1,159	Ch\$ 5,463	Ch\$ (3,151)	371.4%	%
Foreign exchange transactions, net	(32,780)	93,338	17,660		(81.1)
Net other operating income (loss)	Ch\$ (31,621)	Ch\$ 98,801	Ch\$ 14,509	%	(85.3)%

2003 and 2004. In 2004, other operating income (loss), net contributed net income of Ch\$14,509 million, a substantial decrease from Ch\$98,801 million in 2003, primarily as a result of a significant decrease in income from foreign exchange transactions in 2004 and, to a lesser extent, losses on trading activities in the same year.

Gains on sales of financial instruments in 2004 accounted for a loss of Ch\$3,151 million as compared to a gain of Ch\$5,463 million in 2003. This loss was primarily a result of losses caused by decreases in the fair value of cross-currency swap transactions recorded during 2004 and losses associated with the sale of two loans in the manufacturing and retail sectors during 2004.

The decrease in foreign exchange transactions during 2004 as compared to 2003 was primarily attributable to a lower appreciation of the Chilean peso in 2004 of 6.6% as compared to 15.9% in 2003, which significantly reduced the income resulting from the net liability U.S. dollar-denominated position in 2004.

2002 and 2003. We recorded other operating income of Ch\$98,801 million in 2003, compared to an other operating loss of Ch\$31,621 million in 2002, primarily as a result of a significant increase in income from foreign exchange transactions and, to a lesser extent, increased gains on trading activities. The increase in foreign exchange transactions was primarily attributable to our decision to maintain a higher net liability position in U.S. dollars at a time when the Chilean peso was appreciating against the U.S. dollar in 2003. This effect was partially offset by our net asset position in Chilean peso-denominated assets, which were readjusted in U.S. dollars.

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Total gains on trading activities in 2003 totaled Ch\$5,463 million, compared to Ch\$1,159 million in 2002, primarily as a result of earnings obtained from the sale of Argentine securities.



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

Other income and expenses, net consists of gains arising from the recovery of loans previously charged-off, non-operating income, non-operating expenses and income and gains arising from our affiliates accounted for by the equity method, offset by any minority interest participation in the net income of our subsidiaries. See notes 9, 17 and 19 to our audited consolidated financial statements.

The following table sets forth certain components of our other income and expenses, net, in the years ended December 31, 2002, 2003 and 2004:

	Year Ended December 31,			% Increase (Decrease)	
	2002	2003	2004	2002/2003	2003/2004
	(in millions of constant Ch\$ as of December 31, 2004, except for percentages)				
Loan loss recoveries previously charged-off	Ch\$ 11,591	Ch\$ 25,228	Ch\$ 28,359	117.7%	12.4%
Loan loss recoveries reacquired from the Central Bank	743	798	5,377	7.4	573.8
<b>Subtotal</b>	<b>12,334</b>	<b>26,026</b>	<b>33,736</b>	<b>111.0</b>	<b>29.6</b>
Non-operating income	6,135	5,429	4,821	(11.5)	(11.2)
Non-operating expenses	(20,920)	(15,963)	(16,558)	(23.7)	3.7
<b>Subtotal</b>	<b>(14,785)</b>	<b>(10,534)</b>	<b>(11,737)</b>	<b>(28.8)</b>	<b>11.4</b>
Income from investments in other companies	(1,004)	(1,251)	436	24.6%	
Minority interest	(1)	(2)	(1)	100.0%	(50.0)%
<b>Total</b>	<b>Ch\$ (3,456)</b>	<b>Ch\$ 14,239</b>	<b>Ch\$ 22,434</b>		<b>57.6%</b>

*2003 and 2004.* Other income and expenses, net increased to income of Ch\$22,434 million in 2004 from Ch\$14,239 million in 2003, primarily as a result of a 29.6% increase in loan loss recoveries which resulted from improved economic conditions in Chile, increased collection efforts and, to a lesser extent, losses in connection with equity investments related to an affiliate that offers e-commerce services to our corporate customers in 2003.

*2002 and 2003.* Other income and expenses, net changed to income of Ch\$14,239 million in 2003 from an expense of Ch\$3,456 million in 2002, primarily as a result of an increase in the recovery of loans that had previously been charged-off, a decrease in non-operating expenses and a decrease in provisions and charge-offs on assets received in lieu of payment. The change was also attributable to the fact that certain non-recurring expenses (such as certain provisions and charge-offs on premises) were recorded in 2002 as a result of the merger. See note 17 to our audited consolidated financial statements.

**Table of Contents****Operating Expenses**

The following table sets forth information regarding our operating expenses in the years ended December 31, 2002, 2003 and 2004:

	Year Ended December 31,			% Increase (Decrease)	
	2002	2003	2004	2002/2003	2003/2004
	(in millions of constant Ch\$ as of December 31, 2004, except for percentages)				
Personnel salaries and expenses	Ch\$ 138,829	Ch\$ 128,329	Ch\$ 136,599	(7.6)%	6.4%
Administrative and other expenses:					
Advertising	8,799	7,978	10,857	(9.3)	36.1
Building maintenance	8,112	5,715	6,722	(29.5)	17.6
Rentals and insurance	9,536	9,191	9,204	(3.6)	0.1
Office supplies	4,783	4,359	4,554	(8.9)	4.5
Other expenses	64,013	54,604	56,389	(14.7)	3.3
Total administrative and other expenses	Ch\$ 95,243	Ch\$ 81,847	Ch\$ 87,726	(14.1)%	7.2%
Depreciation and amortization	22,708	17,381	15,977	(23.5)	(8.1)
Total	Ch\$ 256,780	Ch\$ 227,557	Ch\$ 240,302	(11.4)%	5.6%

*2003 and 2004.* Our operating expenses increased by 5.6% from Ch\$227,557 million in 2003 to Ch\$240,302 million in 2004, primarily as a result of increased personnel and administrative expenses. Personnel salaries and expenses increased by 6.4% during 2004, primarily as a result of salary increases, higher performance-related incentive expenses, the addition of 225 employees and a one-time bonus payment of approximately Ch\$3,890 million made in the fourth quarter of 2004 in connection with our four-year collective bargaining agreement with our labor unions. We do not expect to be involved in any new collective bargaining agreements in the next four years.

The annual increase in administrative expenses was primarily due to advertising expenses, expenses associated with the expansion of our ATM network and the Credichile branch network, Neos related expenses and legal expenses of the New York branch.

Depreciation and amortization expenses declined by 8.1% during 2004 reflecting lower depreciation of computer equipment, which more than offset the higher amortization expenses related to our Neos project.

*2002 and 2003.* Our operating expenses decreased by 11.4% from Ch\$256,780 million in 2002 to Ch\$227,557 million in 2003, primarily as a result of cost savings associated with the merger. Personnel salaries and expenses decreased 7.6% in 2003 as a result of an employee reduction, which was partially offset by an increase in personnel salaries in 2003. The merger also resulted in a decrease in administrative costs, particularly those associated with the maintenance of fixed asset and rental expenses. Decreased depreciation expenses during 2003 were primarily due to higher charge-offs during 2002 of discontinued software and assets in leased branches that were closed during the first half of 2002.

*Loss from Price-Level Restatement*

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

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*2003 and 2004.* The loss from price-level restatement increased from Ch\$4,137 million in 2003 to Ch\$7,466 million in 2004, primarily as a result of the increase in the inflation rate used for adjustment purposes from 1.0% in 2003 to 2.5% in 2004.

*2002 and 2003.* The loss from price-level restatement decreased from Ch\$9,934 million in 2002 to Ch\$4,137 million in 2003 primarily as a result of a decrease in the inflation rate used for adjustment purposes from 3.0% in 2002 to 1.0% in 2003.

**Income Tax**

The statutory corporate income tax rate in Chile was 16.5% in 2003 and 17% in 2004. We are also permitted under Law No. 19,396 to deduct dividend payments made to SAOS. In addition, any other payments made by SAOS or its shareholders to the Central Bank in connection with the Central Bank indebtedness are tax deductible. Consequently, our effective tax rate is significantly lower than the statutory corporate income tax rate because of the deduction of dividend payments from our taxable income. Additionally, but to a lesser extent, differences in the tax treatment for provisions on individual loans and for charge-offs for past due loans have an impact on our effective tax rate. Moreover, all real estate taxes paid on properties that are leased to customers are deductible from our taxable income.

*2003 and 2004.* In 2004, we recorded a tax expense of Ch\$18,349 million as compared to a tax expense of Ch\$14,250 million in 2003. This increase was primarily attributable to a higher income tax base in 2004 as a result of a 15.5% increase in net income before taxes, and the increase in the statutory income tax rate from 16.5% in 2003 to 17% in 2004.

*2002 and 2003.* We recorded a tax expense of Ch\$14,250 million in 2003, as compared to a tax benefit of Ch\$1,194 million in 2002. The change was primarily attributable to a higher income tax base in 2003, as a result of the 178% increase in net income before taxes between periods, an increase in the corporate income tax rate from 16.0% in 2002 to 16.5% in 2003, a lower tax benefit in 2003 relating to the amortization of the complementary accounts on accumulated deferred taxes for periods prior to 1999 and non-recurring earnings in 2002 related to the recognition of deferred taxes as a consequence of the increase in the corporate income tax rate in 2002.

**Chilean and U.S. GAAP Reconciliation**

We prepare our audited consolidated financial statements in accordance with Chilean GAAP, which differs in certain significant respects from U.S. GAAP. See note 28 to our audited consolidated financial statements for a description of the material differences between Chilean GAAP and U.S. GAAP, as they relate to us and our consolidated subsidiaries, reconciliation to U.S. GAAP of net income and shareholders' equity and a discussion of new accounting rules under U.S. GAAP. The following table sets forth net income and shareholders' equity for the years ended December 31, 2002, 2003 and 2004 under Chilean GAAP and U.S. GAAP:

	Year Ended December 31,		
	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)		
Net income (Chilean GAAP)	Ch\$ 54,490	Ch\$ 133,817	Ch\$ 152,628

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Net income (U.S. GAAP)	17,552	133,658	146,912
Shareholders' equity (Chilean GAAP)	640,022	713,068	674,533
Shareholders' equity (U.S. GAAP)	Ch\$ 1,325,079	Ch\$ 1,374,166	Ch\$ 1,324,275

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

Under Chilean GAAP, the merger was accounted for as a pooling of interests on a prospective basis. As such, the historical financial statements for periods prior to the merger are not restated under Chilean GAAP and we are considered to be the surviving entity. Under U.S. GAAP, the merger of the two banks is accounted for as a merger of entities under common control, as LQ Inversiones Financieras, a holding company beneficially owned by Quiñenco S.A., controlled both banks since March 27, 2001. Consequently, U.S. GAAP requires that we restate our U.S. GAAP historical financial statements to retroactively reflect the merger as if both banks had been combined since March 27, 2001. Under U.S. GAAP, for periods prior to March 27, 2001, the information presented in our audited consolidated financial statements is that of Banco de A. Edwards, as it had been under Quiñenco S.A.'s control since September 2, 1999.

The pooling of interests method under Chilean GAAP eliminates any interbank balances and aggregates the results of both banks using their historical book values. Under U.S. GAAP, to the extent that we and Banco de A. Edwards were under common control, the assets and liabilities of Banco de A. Edwards were transferred into our accounts at their book value. However, as Quiñenco S.A. only owned 51.18% of Banco de A. Edwards, we effectively acquired from minority interest holders that portion that was not held by Quiñenco S.A. and so we applied purchase accounting. As a result, we must calculate goodwill based on the difference between the purchase price (*i.e.*, the market value of our shares) and the fair value of the proportion of assets and liabilities acquired from minority interest holders at the date of the merger. As part of this process, under U.S. GAAP, we were also required to value previously unrecorded intangible assets, such as the Banco de A. Edwards brand name, and to include these assets in our financial records. Such assets remain unrecorded under Chilean GAAP. The different basis of the assets and liabilities caused by this treatment has an effect on changes in depreciation and amortization in subsequent periods.

Under U.S. GAAP, when accounting for a merger of entities under common control, the book values of the merged entities that are held in the books of the common parent must be pushed down to the merged entity. This means that any goodwill in the books of Quiñenco S.A. at the time that it acquired each bank and any fair value differences created from those purchases must be included in our U.S. GAAP accounting records. In practice, this means that the goodwill and fair value adjustments created from Quiñenco S.A.'s purchases of Banco de A. Edwards shares in September, October and December 1999 and from Quiñenco S.A.'s purchase of our shares in March 2001 are pushed down to us. As there is no analogous accounting treatment under Chilean GAAP, there is a considerable difference in the asset and liability bases under each body of accounting principles.

Under Chilean GAAP, allowances for loan losses are calculated according to specific guidelines set by the Chilean Superintendency of Banks. Under U.S. GAAP, allowances for loan losses should be in amounts adequate to cover inherent losses in the loan portfolio at the respective balance sheet dates. If we had applied U.S. GAAP, our net income would have increased by Ch\$7,492 million and Ch\$8,258 million in 2003 and 2004, respectively, and shareholders' equity would have increased by Ch\$29,696 million and Ch\$37,953 million in 2003 and 2004, respectively.

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As required by the guidelines issued by the Chilean Superintendency of Banks, we account for forward contracts between foreign currencies and the U.S. dollar and forward contracts between the U.S. dollar and the Chilean peso, or the UF, are valued at the closing spot exchange rate at each balance sheet date, with the initial discount or premium being amortized over the life of the contract. Interest rate swap agreements are treated as off-balance-sheet financial instruments and the net interest effect, which corresponds to the difference between interest income and interest expense arising from such agreements, is recorded in net income in the period that such differences originate, except for interest rate and cross currency swaps designated as a hedge of the foreign investment portfolio, which are recorded at their estimated fair market values. Under U.S. GAAP, our entire portfolio of swap agreements are recorded at their estimated fair value and forward contracts between the U.S. dollar and the Chilean peso, or the UF, at the fair value based on the forward exchange rate. Additionally, we separately measure embedded derivatives included in certain contracts as freestanding derivative instruments at their estimated fair values, recognizing changes in earnings when they occur.

These differences are explained in greater detail in note 28(a) to our audited consolidated financial statements.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

Liquidity risk is the risk that we will be unable to meet our payment obligations and potential payment obligations as and when they become due without incurring unacceptable losses. To manage that risk, we maintain at all times a diversified stock of highly liquid assets that can be quickly mobilized in extraordinary circumstances, including cash, financial investments, and Central Bank and government securities. Additionally, we have established lines of credit with foreign and domestic banks and have access to Central Bank borrowings to increase liquidity as necessary.

Our general policy is to maintain sufficient liquidity to ensure our ability to honor withdrawals of deposits, make repayments of other liabilities at maturity, extend loans and meet our working capital needs. As a bank, we satisfy our working capital needs through general funding. The majority of our funding is derived from deposits and other borrowings from the public. We believe that our working capital is sufficient to meet our present needs. The minimum amount of liquidity is determined by the reserve requirements set by the Central Bank. These reserves are currently 9.0% of demand deposits and 3.6% of time deposits. We are in compliance with all of these requirements.

In addition, we are subject to a technical requirement applicable to Chilean banks pursuant to which we must hold a certain amount of assets in cash or in highly liquid instruments. This reserve is equal to the amount by which the daily balance of:

deposits in checking accounts;

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

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

time deposits payable within ten days

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in the aggregate exceeds 2.5 times the amount of our capital and reserves.

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



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The senior members of our financial division evaluate liquidity by projecting daily cash flows over the following 100 days to verify that adequate liquidity is maintained, in compliance with limits imposed by Chilean banking regulations and those set internally by us.

**Cash Flows**

The tables below set forth our principal sources of cash. Our subsidiaries are not an important source of cash for us and therefore, have no impact on our ability to meet our cash obligations. No legal or economic restrictions exist on the ability of our subsidiaries to transfer funds to us in the form of loans or cash dividends as long as our subsidiaries abide by the regulations in the Chilean Corporations Law regarding loans to related parties and minimum dividend payments.

	Year Ended December 31,		
	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)		
Net cash provided by (used in) operating activities	Ch\$ 432,859	Ch\$ (117,085)	Ch\$ 574,804

*2003 and 2004.* Cash provided by operating activities reached Ch\$574,804 million in 2004 compared to cash used in operating activities of Ch\$117,085 million in 2003, primarily as a result of a decrease in our financial investments, primarily in short-term Central Bank securities and Chilean financial institutions, due to our issuance of three series of bonds on September 1, 2004 which improved our liquidity and allowed us to reduce our lower-yielding short-term assets. In addition, foreign country-related investments also declined as a result of the decrease in the exchange rate.

*2002 and 2003.* We recorded cash used in operating activities of Ch\$117,085 million in 2003, primarily as a result of an increase in the amount of Central Bank and government securities required to be held by us in order to comply with higher technical reserve requirements from the significant growth in checking accounts.

	Year Ended December 31,		
	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)		
Net cash used in investing activities	Ch\$ (259,362)	Ch\$ (170,521)	Ch\$ (642,668)

*2003 and 2004.* Cash used in investing activities increased to Ch\$642,668 million in 2004 from Ch\$170,521 million in 2003 primarily as a result of an increase in the volume of our loan portfolio.

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2002 and 2003. Cash used in investing activities decreased to Ch\$170,521 million in 2003 from Ch\$259,362 million in 2002, primarily as a result of a decrease in the funds used in spot foreign exchange transactions.

	Year Ended December 31,		
	2002	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)		
Net cash provided by (used in) financing activities	Ch\$ (269,466)	Ch\$ 473,368	Ch\$ 98,645

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2003 and 2004. The decrease in cash provided by financing activities of Ch\$473,368 million in 2003 to cash provided by financing activities of Ch\$98,645 million in 2004 was primarily attributable to a decrease in investments sold under agreements to repurchase, mortgage finance bonds and foreign borrowings. Additionally, the decrease in net cash provided by financing activities resulted from the purchase of 2.5% of our shares and higher dividends distributed to our shareholders, Ch\$130,550 million in 2004 compared to Ch\$53,949 million in 2003.

2002 and 2003. The change from cash used in financing activities of Ch\$269,466 million in 2002 to cash provided by financing activities of Ch\$473,368 million in 2003 was primarily attributable to an increase in savings accounts and time deposits and, to a lesser extent, an increase in short-term foreign borrowings and investments sold under repurchase agreements.

**Other Borrowings**

Our long-term and short-term borrowings are summarized below. In accordance with the guidelines established by the Chilean Superintendency of Banks, we do not present a classified balance sheet. Borrowings are described as short-term when they have original maturities of less than one year or are due on demand. All other borrowings are described as long-term, including the amounts due within one year on such borrowings.

	Year Ended December 31, 2003			Year Ended December 31, 2004		
	Long-term	Short-term	Total	Long-term	Short-term	Total
(in millions of constant Ch\$ as of December 31, 2004)						
Central Bank Credit lines for renegotiation of loans	Ch\$ 3,049		Ch\$ 3,049	Ch\$ 1,930		Ch\$ 1,930
Other Central Bank Borrowings		Ch\$ 25,529	25,529		Ch\$ 107,643	107,643
Mortgage finance bonds	1,039,813		1,039,813	788,888		788,888
Bonds	3,205		3,205	181,515		181,515
Subordinated bonds	277,977		277,977	266,304		266,304
Borrowings from domestic financial institutions	106	51,023	51,129		26,399	26,399
Foreign borrowings	462,131	273,787	735,918	254,812	340,736	595,548
Investments sold under agreements to repurchase		437,410	437,410		349,086	349,086
Other obligations	10,092	50,998	61,090	11,089	33,758	44,847
<b>Total other interest bearing liabilities</b>	<b>Ch\$ 1,796,373</b>	<b>Ch\$ 838,747</b>	<b>Ch\$ 2,635,120</b>	<b>Ch\$ 1,504,538</b>	<b>Ch\$ 857,622</b>	<b>Ch\$ 2,362,160</b>

**Table of Contents****Central Bank borrowings**

Central Bank borrowings include credit lines for the renegotiation of loans and other Central Bank borrowings. Credit lines were provided by the Central Bank for the renegotiation of mortgage loans due to the need to refinance debts as a result of the economic recession and crisis of the Chilean banking system from 1982 to 1985. The credit lines for the renegotiations of mortgage loans are linked to the UF index and carry a real annual interest rate of 2.29% as of December 31, 2004. The maturities of the outstanding amounts are as follows:

	<b>As of December 31, 2004</b>	
	<b>(in millions of constant Ch\$ as of</b>	
	<b>December 31, 2004)</b>	
Due within 1 year	Ch\$	1,930
Due after 1 year but within 2 years		
Due after 2 years but within 3 years		
Due after 3 years but within 4 years		
Due after 4 years but within 5 years		
Due after 5 years		
		<hr/>
Total long-term (Credit lines for renegotiation of loans)		1,930
Total short-term (Other Central Bank borrowings)		107,643
		<hr/>
Total Central Bank borrowings	Ch\$	109,573
		<hr/> <hr/>

**Mortgage finance bonds**

Mortgage finance bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and carry a weighted average annual interest rate of 5.9% as of December 31, 2004.

The maturities of outstanding mortgage finance bond amounts as of December 31, 2004 are as follows:

	<b>As of December 31, 2004</b>	
	<b>(in millions of constant Ch\$ as</b>	
	<b>of December 31, 2004)</b>	
Due within 1 year	Ch\$	79,647
Due after 1 year but within 2 years		71,034
Due after 2 years but within 3 years		71,525
Due after 3 years but within 4 years		69,640
Due after 4 years but within 5 years		68,004
Due after 5 years		429,038
		<hr/>

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Total mortgage finance bonds	Ch\$	788,888
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**Bonds**

Our bonds are linked to the UF Index and carry an average real annual interest rate of 3.6% as of December 31, 2004, with interest and principal payments due semi-annually. The bonds were originally intended to finance loans that had a maturity of greater than one year.

The maturities of outstanding bond amounts as of December 31, 2004 are as follows:

	<b>As of December 31, 2004</b>	
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>	
Due within 1 year	Ch\$	29,408
Due after 1 year but within 2 years		28,311
Due after 2 years but within 3 years		27,931
Due after 3 years but within 4 years		27,387
Due after 4 years but within 5 years		27,486
Due after 5 years		40,992
<b>Total bonds</b>	<b>Ch\$</b>	<b>181,515</b>

**Table of Contents*****Subordinated bonds***

In 2002 we issued bonds totaling UF1,580,000 at a discount of UF98,670. The bonds are linked to the UF index with interest and principal payments due semi-annually. The discount on the issuance of the bonds is amortized over the life of the bond. As of December 31, 2004, the effective real interest rate is 7.0%, taking into consideration the discount on issuance.

The bonds are intended to finance loans having a maturity greater than one year. As of December 31, 2004 the outstanding maturities of the bonds, which are considered long-term, are as follows:

	<b>As of December 31, 2004</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>
Due within 1 year	Ch\$26,605
Due after 1 year but within 2 years	20,417
Due after 2 years but within 3 years	20,417
Due after 3 years but within 4 years	20,417
Due after 4 years but within 5 years	20,417
Due after 5 years	158,031
<b>Total subordinated bonds</b>	<b>Ch\$266,304</b>

Subordinated bonds are considered in the calculation of effective equity for the purpose of determining our minimum capital requirements.

***Borrowings from domestic financial institutions***

Borrowings from domestic financial institutions, which are used to fund our general activities, carry a weighted average annual real interest rate of 2.39% as of December 31, 2004 and have the following outstanding maturities as of December 31, 2004:

	<b>As of December 31, 2004</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>
Due within 1 year	
Due after 1 year but within 2 years	
Due after 2 years but within 3 years	
Due after 3 years but within 4 years	
Due after 4 years but within 5 years	
Due after 5 years	

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Total long-term	
Total short-term	Ch\$26,399
<hr/>	
Total borrowings from domestic financial institutions	Ch\$26,399
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**Table of Contents****Foreign borrowings**

We have short-term and long-term borrowings from foreign banks. The outstanding maturities of these borrowings as of December 31, 2004 are as follows:

	<b>As of December 31, 2004</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>
Due within 1 year	Ch\$215,576
Due after 1 year but within 2 years	39,236
Due after 2 years but within 3 years	
Due after 3 years but within 4 years	
Due after 4 years but within 5 years	
Due after 5 years	
<b>Total long-term</b>	<b>254,812</b>
<b>Total short-term</b>	<b>340,736</b>
<b>Total foreign borrowings</b>	<b>Ch\$595,548</b>

All of these loans are denominated in U.S. dollars, are principally used to fund our foreign trade loans and carry an average annual nominal interest rate of 2.33% as of December 31, 2004.

**Other obligations**

	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>	
<b>Other long-term obligations:</b>		
Obligations with Chilean government	Ch\$ 10,092	Ch\$ 11,089
<b>Total other long-term obligations</b>	<b>10,092</b>	<b>11,089</b>
Other short-term obligations	50,998	33,758
<b>Total other obligations</b>	<b>Ch\$ 61,090</b>	<b>Ch\$ 44,847</b>

As of December 31, 2004, other obligations had the following maturities:



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	<b>As of December 31, 2004</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>
Due within 1 year	Ch\$1,396
Due after 1 year but within 2 years	1,595
Due after 2 years but within 3 years	1,787
Due after 3 years but within 4 years	1,762
Due after 4 years but within 5 years	1,555
Due after 5 years	2,994
<b>Total long-term</b>	<b>11,089</b>
<b>Total short-term</b>	<b>33,758</b>
<b>Total other obligations</b>	<b>Ch\$44,847</b>

**Table of Contents****Asset and Liability Management**

Our asset and liability management policy is to maximize net interest revenue and return on assets and shareholders' equity in light of interest rate, liquidity and foreign exchange risks and within the limits of Chilean banking regulations and our internal risk management policies. Subject to these constraints, we may from time to time take mismatched positions as to interest rates or, in certain limited circumstances, foreign currencies when justified, in our view, by market conditions and prospects, and subject to our asset and liability management policies. Our board of directors determines our asset and liability policies. See Item 11. Quantitative and Qualitative Disclosure About Market Risk.

**Funding**

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2002, 2003 and 2004, in each case together with the related average nominal interest rates paid thereon:

	Year Ended December 31,								
	2002			2003			2004		
	Average Balance	% of Total Liabilities	Average Nominal Rate	Average Balance	% of Total Liabilities	Average Nominal Rate	Average Balance	% of Total Liabilities	Average Nominal Rate
(in millions of constant Ch\$ as of December 31, 2004, except for percentages)									
Non-interest bearing demand deposits	Ch\$ 1,633,578	18.9%		Ch\$ 1,873,627	21.8%		Ch\$ 2,088,509	23.3%	
Time deposits	3,640,906	42.0	4.1%	3,413,951	39.8	2.5%	3,466,036	38.7	2.5%
Savings accounts	173,446	2.0	4.3	176,967	2.1	1.7	146,778	1.7	2.2
Mortgage finance bonds	1,312,999	15.2	9.3	1,051,414	12.2	7.4	914,065	10.2	8.2
Central Bank borrowings	62,674	0.7	3.7	69,949	0.8	2.5	90,259	1.0	2.3
Contingent liabilities	379,759	4.4		404,684	4.7		478,351	5.4	
Other non-interest bearing liabilities	301,567	3.5		199,798	2.3		298,514	3.3	
Other interest bearing liabilities	1,160,086	13.3	4.5%	1,400,636	16.3	2.9%	1,470,789	16.4	3.3%
<b>Total liabilities</b>	<b>Ch\$ 8,665,015</b>	<b>100.0%</b>		<b>Ch\$ 8,591,026</b>	<b>100.0%</b>		<b>Ch\$ 8,953,301</b>	<b>100.0%</b>	

Our most important source of funding is our customer deposits, which consist primarily of peso-denominated non-interest bearing demand deposits and peso- and UF-denominated interest bearing time deposits. Non-interest bearing demand deposits represented 23.3% of our average total liabilities in 2004, and are our least expensive source of funding. Time deposits and mortgage finance bonds represented 48.9% of our average liabilities in 2004 and 52.0% in 2003, respectively.

Our current funding strategy is to continue to utilize all sources of funding in accordance with their cost and availability and with our general asset and liability management strategy. We also intend to continue to broaden our customer deposit base, to emphasize core deposit funding and to fund our mortgage loans with the matched funding available through the issuance of mortgage finance bonds and other long-term bonds in Chile's capital markets. See Item 4. Information on the Company Business Overview Principal Business Activities Retail Banking.

**Table of Contents****OFF-BALANCE SHEET ARRANGEMENTS**

In the normal course of business, we are a party to a number of off-balance sheet activities that contain credit, market and operational risk that are not reflected in our consolidated financial statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit, and long-term contractual obligations under operating leases or service contracts.

We provide customers with off-balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since substantial portions of these commitments are expected to expire without our having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. The amounts of these loan commitments were Ch\$909,217 million and Ch\$593,002 million as of December 31, 2003 and 2004, respectively. The amounts of subscribed leasing contracts were Ch\$55,537 million and Ch\$41,195 million as of December 31, 2003 and 2004, respectively.

Our interest rate swap agreements are treated as off-balance sheet financial instruments and the net interest effect, which is the difference between interest income and interest expense arising from such agreements, is recorded in net income in the period in which such differences originate. However, interest rate and cross-currency swaps, which are entered into in order to hedge the foreign investment portfolio, are recorded at their estimated fair market values.

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness. We may also receive comfort letters and oral assurances. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is requested when appropriate.

**Financial Guarantees**

The following is a summary of instruments that are considered financial guarantees in accordance with FASB Interpretation No. 45:

	<b>As of December 31, 2004</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>
Performance bonds	Ch\$347,843
Foreign office guarantees	15,355
Standby letters of credit	23,737
<b>Total</b>	<b>Ch\$386,935</b>

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Guarantees in the form of performance bonds, standby letters of credit and foreign office guarantees are issued in connection with agreements made by customers to counterparties. If the customer fails to comply with the agreement, the counterparty may enforce the performance bonds, standby letters of credit or foreign office guarantees as a remedy. Credit risk arises from the possibility that the customer may not be able to repay us for these guarantees.

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The expiration of guarantees per period is as follows:

	<u>Due within 1 year</u>	<u>Due after 1 year but within 3 years</u>	<u>Due after 3 years but within 5 years</u>	<u>Due after 5 years</u>	<u>Total</u>
(in millions of constant Ch\$ as of December 31, 2004)					
Performance bonds	Ch\$ 221,812	Ch\$ 96,309	Ch\$ 28,322	Ch\$ 1,400	Ch\$ 347,843
Standby letters of credit	12,521	10,956	78	182	23,737
Foreign office guarantees	15,355				15,355
<b>Total</b>	<b>Ch\$ 249,688</b>	<b>Ch\$ 107,265</b>	<b>Ch\$ 28,400</b>	<b>Ch\$ 1,582</b>	<b>Ch\$ 386,935</b>

**TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The following tables set forth our contractual obligations and commercial commitments by time remaining to maturity. As of December 31, 2004, the scheduled maturities of our contractual obligations, including accrued interest, were as follows:

	<u>Due within 1 year</u>	<u>Due after 1 year but within 3 years</u>	<u>Due after 3 years but within 5 years</u>	<u>Due after 5 years</u>	<u>Total</u>
(in millions of constant Ch\$ as of December 31, 2004)					
<b>Contractual Obligations</b>					
Deposit and other term liabilities(1)	Ch\$ 3,296,296	Ch\$ 224,033	Ch\$ 1,020		Ch\$ 3,521,349
Mortgage finance bonds	79,647	142,559	137,644	Ch\$ 429,038	788,888
Bonds issued	56,013	97,076	95,707	199,023	447,819
Central Bank credit lines from renegotiations of loans	1,930				1,930
Other Central Bank borrowings	107,643				107,643
Borrowings from domestic financial institutions	26,399				26,399
Foreign borrowings	556,312	39,236			595,548
Other obligations	35,154	3,382	3,317	2,994	44,847
Lease contracts	5,711	8,133	4,972	3,341	22,157
Services contracts	143,090	145,732	123,359	2,463,271	2,875,452
Investments sold under agreements to repurchase	349,086				349,086
<b>Total</b>	<b>Ch\$ 4,657,281</b>	<b>Ch\$ 660,151</b>	<b>Ch\$ 366,019</b>	<b>Ch\$ 3,097,667</b>	<b>Ch\$ 8,781,118</b>

(1) Excludes demand accounts and savings accounts.

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As of December 31, 2004, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

	<u>Due within 1 year</u>	<u>Due after 1 year but within 3 years</u>	<u>Due after 3 years but within 5 years</u>	<u>Due after 5 years</u>	<u>Total</u>
(in millions of constant Ch\$ as of December 31, 2004)					
<b>Commercial Commitments</b>					
Letters of Credit	Ch\$ 145,237				Ch\$ 145,237
Guarantees	249,688	Ch\$ 107,265	Ch\$ 28,400	Ch\$ 1,582	386,935
<b>Total other commercial commitments</b>	<b>Ch\$ 394,925</b>	<b>Ch\$ 107,265</b>	<b>Ch\$ 28,400</b>	<b>Ch\$ 1,582</b>	<b>Ch\$ 532,172</b>

**Table of Contents****Item 6. Directors, Senior Management and Employees****DIRECTORS AND SENIOR MANAGEMENT****Directors**

Our administration is conducted by our board of directors which, in accordance with our *estatutos*, or bylaws, consists of eleven directors and two alternate directors. The entire board of directors is elected every three years. Our current board of directors was elected in March 2005 and their term expires in March 2008. Cumulative voting is permitted for the election of directors. Our chairman and our chief executive officer are appointed by the board of directors and holds their office at the board of directors' discretion. Scheduled meetings of the board of directors are held at least twice a month. Extraordinary board of directors meetings may be called by the chairman, when requested by a majority of the directors or, in limited circumstances, when requested by one director.

Our current directors are as follows:

<u>Directors</u>	<u>Position</u>	<u>Age</u>
Fernando Cañas B.	Chairman	55
Andronico Luksic C.	Vice chairman	51
Jorge Awad M.	Director	59
Jacob Ergas E.	Director	70
Thomas Fürst F.	Director	74
Guillermo Luksic C.	Director	48
Rodrigo Manubens M.	Director	45
Gonzalo Menendez D.	Director	55
Maximo Pacheco M.	Director	51
Francisco Perez M.	Director	46
Segismundo Schulín-Zeuthen S.	Director	59
Edmundo Eluchans U.	Alternate director	54
Jorge Ergas H.	Alternate director	36

*Fernando Cañas B.* was elected as the chairman of our board of directors in 2005. Beginning his financial services career in 1977, Mr. Cañas joined Banco Santiago and participated in its formation and management until 1983. Mr. Cañas returned to Banco Santiago in 1997 as vice chairman of the board of directors and became chief executive officer in 1998. Mr. Cañas was chief executive officer at Banco O Higgins prior to its merger with Banco Santiago. He served as chairman of the board of directors at Banco Tornquist in Argentina, a director on the board of directors of Banco del Sur in Peru and in 2001, became chairman of the board of directors for Latin America and the Caribbean of MasterCard International. In 2002, he was chief executive officer of Banco Santander Chile and in 2003, he became the general director and head of payment methods for Latin America Banco Santander Central Hispano based in Spain. Presently, he is chairman of the board of directors of Banchile Factoring S.A., Banchile Asesoría Financiera S.A., Banchile Securitizadora S.A. and Socofin S.A., and he is also a member of the board of directors of Banchile Corredores de Bolsa S.A. and the executive committee of Banchile Corredores Seguros Limitada. Mr. Cañas has a degree in Business Administration from the University of Chile at Valparaíso.



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*Andronico Luksic C.* was elected as a director and vice chairman of our board of directors in 2005, and was previously a director and vice chairman of our board of directors from 2002 to 2004. He is a member of the NYSE, the advisory committee to the David Rockefeller Center for Latin American Studies at Harvard University, the Latin American Advisory Committee at Harvard Business School, the board of trustees to Babson College, the advisory board of the Panama Canal Authority and the Asia-Pacific Economic Cooperation Business Advisory Council. Mr. Luksic is vice chairman of Quiñenco S.A. and a member of the board of directors at Compañía Cervecerías Unidas S.A., Manufacturas de Cobre Madeco S.A., Empresas Lucchetti S.A., SOFOFA and the Sociedad de Fomento Fabril and he is a trustee of the Chile-Pacific Foundation. He was chairman of the board of directors of Banco O Higgins and subsequently chairman of the board of directors of Banco Santiago until May 1999. Mr. Luksic was director and chairman of the board of directors of Banco de A. Edwards from September 1999 to December 2001. Mr. Luksic is a brother of Mr. Guillermo Luksic.

*Jorge Awad M.* has been a member of our board of directors since 1996. From 1989 to 1996, he was a member of the board of directors of Banco de Santiago. Mr. Awad has been the chairman of the board of directors of Lan Airlines S.A. since 1994 and is a member of the board of directors of several other companies, including Envases del Pacífico S.A., Universidad de Talca and Universidad Miguel de Cervantes. Previously, Mr. Awad was a director of Codelco Chile, Television Nacional de Chile, Laboratorio Chile S.A and other companies. He is also a professor of business entrepreneurship at the Universidad de Chile, from which he holds a degree in commercial engineering.

*Jacob Ergas E.* has been a member of our board of directors since 2002. Mr. Ergas is also director of Banchile Administradora General de Fondos S.A. He is chairman of the board of directors of J. Ergas Inversiones y Rentas Limitada, Ever I BAE S.A., Ever II HNS S.A., Inmobiliaria Paidahue S.A. and INERSA S.A. He was chairman of the board of directors of Banedwards S.A., Administradora de Fondos Mutuos, Banedwards S.A. Fondos de Inversion and Banedwards Corredora de Seguros Limitada. He was director of Promarket S.A., Banedwards Compañía de Seguros de Vida S.A. and Banedwards Asesoría Financiera S.A. He was director and vice chairman of Banco de A. Edwards from 1986 to 2001 and also director of the Chilean Association of Banks and Financial Institutions. Presently, he is a member of the board of directors of Banchile Administradora General de Fondos S.A.

*Thomas G. Fürst* has been a member of our board of directors since 2004. He is also member of the board of directors of Banchile Administradora General de Fondos S.A. Previously, Mr. Fürst was vice chairman of the board of directors at Compañía Cervecerías Unidas S.A. and a member of the board of directors of several other companies, including Embotelladoras Chilenas Unidas S.A., Viña Dassault-San Pedro S.A, Southern Breweries Establishment, CCU Argentina S.A. and Compañía Industrial Cervecera S.A. (CICSA). Mr. Fürst was a founder and member of the board of directors of Parque Arauco and he is partner and member of the board of Grupo Plaza. Presently, he is a member of Aseger S.A. and is a director of Plaza Vespucio S.A., Plaza Oeste S.A., Plaza del Trebol S.A. (Concepcion), Plaza La Serena S.A. (La Serena), Puente Alto S.A. and Banchile Administradora General de Fondos S.A. Mr. Fürst studied civil construction at Pontificia Universidad Católica de Chile.

*Guillermo Luksic C.* has been a member of our board since 2001 and was the vice chairman of our board of directors from March 2001 to March 2002. Mr. Luksic is chairman of the board of directors of Quiñenco S.A., Compañía Cervecerías Unidas S.A., CNT Telefonica del Sur S.A. and Madeco S.A. He is also a member of the advisory council of Fundación Paz Ciudadana and the Center of Public Studies and a member of the board of Universidad Finis Terrae. Mr. Luksic is a brother of Mr. Andronico Luksic.

*Rodrigo Manubens M.* has been a member of our board of directors since 2001. Mr. Manubens was a member of the board of directors of Banco de A. Edwards from 1999 until 2001. From 1985 to 1999, Mr. Manubens was a member of the board of directors of Banco O Higgins and continued in that role when it merged into Banco Santiago. From 1995 to 1999 he was chairman of Banco Tornquist in Argentina and a member of the board of directors of Banco Sur in Peru and Banco Asuncion in Paraguay. Mr. Manubens also

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served as a director and chairman of Endesa Chile S.A. He is also chairman of Banchile Compañía de Seguros de Vida S.A. and Banchile Corredores de Bolsa S.A., a member of the board of directors of Banchile Factoring S.A. and a member of the executive committee of Banchile Corredores de Seguros Limitada. Mr. Manubens holds a degree in business from Universidad Adolfo Ibañez and a Masters of Science from the London School of Economics and Political Science.

*Gonzalo Menendez D.* has been a member of our board of directors since 2001. He is also the chairman of the board of directors of Inversiones Vita S.A. and Banchile Administradora General de Fondos S.A., and a member of the boards of directors of several other companies, including Banchile Compañía de Seguros de Vida S.A., Compañía Nacional de Telefonos, Telefonica del Sur S.A., Compañía de Telefonos de Coyhaique S.A., Quiñenco S.A., Antofagasta PLC, Minera Michilla S.A., Mining Group Antofagasta Minerals S.A., Antofagasta Railway, Minera Los Pelambres and Aguas de Antofagasta S.A. Previously, Mr. Menendez served as chief executive officer of Antofagasta Railway, Banco O Higgins and Empresas Lucchetti. Since 1990, he has been a director and is now the chairman of the board of directors of the Latin American Export Bank. Mr. Menendez was a member of the board of directors and the executive committee of Banco Santiago and a member of the board of directors of Banco de A. Edwards. Mr. Menendez was a professor of finance and Chilean economic and business policy at the Universidad de Chile. He holds a degree in business administration and accounting from the Universidad de Chile.

*Maximo Pacheco M.* has been a member of our board of directors since 2001. Mr. Pacheco is president and managing director of International Paper in Brazil and a member of the board of directors of Carter Holt Harvey in New Zealand and Corporacion Cultural de la I. Municipalidad de Santiago. Mr. Pacheco holds a degree in commercial engineering from the Universidad de Chile.

*Francisco Perez M.* has been a member of our board of directors since 2001. Since 1998, Mr. Perez has been the chief executive officer of Quiñenco S.A. He was formerly the chief executive officer of Compañía Cervecerías Unidas S.A., of which he is still a director. He is also a member of the board of directors of Entel and Banchile Corredores de Bolsa S.A. Prior to 1991, Mr. Perez was chief executive officer of Citicorp-Chile and also was chairman of Bankers Trust. Mr. Perez holds a degree in business administration from the Pontificia Universidad Católica de Chile and a masters degree in business administration from the University of Chicago.

*Segismundo Schulin-Zeuthen S.* has been a member of our board of directors since 1999, and was previously the chairman of our board of directors from 1999 to 2004. He was also our president and chief executive officer from 1987 to 1999. He joined us in 1985 and served as assistant general manager until 1986. Prior to joining us, Mr. Schulin-Zeuthen held positions at Banco Morgan Finansa and at Nacional Financiera. Mr. Schulin-Zeuthen is also vice chairman of the board of directors of the *Instituto de Capacitacion Racional de Empresas*, a member of the board of Visa International, and chairman of Visa Latin American and Caribbean Region. Mr. Schulin-Zeuthen holds a degree in commercial engineering from the Universidad de Chile.

*Edmundo Eluchans U.* has been an alternate director of our board of directors since 2002. Mr. Eluchans was a director of Banco del Trabajo, Banco O Higgins and Banco Santiago. Mr. Eluchans is also the principal partner at the Chilean law firm of Edmundo Eluchans y Cia. He was elected as an alternate director of Banco de A. Edwards in 2000 and then as a director in 2001. Mr. Eluchans holds a law degree from the Pontificia Universidad Católica de Chile.

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

**Table of Contents****Senior Management**

Our current executive officers are as follows:

<u>Executive Officers</u>	<u>Position</u>	<u>Age</u>
Pablo Granifo L.	Chief executive officer	46
Nelson Rojas P.	General legal counsel	51
Julio Guzman H.	Manager Corporate and international division	50
Luis Felipe Bravo F.	Manager Credit risk division	61
Alejandro Herrera A.	Manager Individual banking and branches	48
Marcelo Caracci L.	Manager Operations and technology division	55
Arturo Concha U.	Manager Financial division	51
Jennie E. Coleman A.	Manager Human resources division	51
Arturo Tagle Q.	Manager Planning and research division	45
Alvaro Cambara L.	Manager Marketing division	48
Pedro Bolados M.	Manager Risk control division	46
Eduardo Ebensperger O.	Manager Middle market division	52
Alicia Sandoval Q.	Manager Special business division	55
Juan Cooper A.	Manager Credichile division	44
Vivianne Sarniguet K.	Manager Global compliance division	38

*Pablo Granifo L.* was appointed our chief executive officer in 2001. He was chief executive officer of Banco de A. Edwards from 2000 to 2001, a commercial manager at Banco Santiago from 1995 to 1999 and a corporate manager at Banco Santiago from 1999 to 2000. Mr. Granifo is a member of the board of directors of Banchile Administradora General de Fondos S.A., Banchile Asesoria Financiera S.A., Socofin S.A., Banchile Securitizadora S.A. and Banchile Factoring S.A. He is also a director of Banchile Trade Services Limited and a member of the executive committee of Banchile Corredores de Seguros Limitada. He holds a degree in business from the Pontificia Universidad Catolica de Chile.

Nelson Rojas P. has been our general legal counsel and the secretary of our board of directors since 2004. In 2002, he joined us as in-house legal counsel. Mr. Rojas joined Banco de A. Edwards in 1987 and was the general legal counsel and secretary of the board from 1997 until 2002. He is also vice president of the legal affairs committee of the Chilean Bank Association. Mr. Rojas holds a degree in law from the Universidad de Chile.

*Julio Guzman H.* has been the manager of the corporate and international division since 2002. He joined Banco de A. Edwards in 1992 and was the general manager from September 2001 to December 2001. Mr. Guzman is a member of the board of directors of Banchile Securitizadora S.A. and he is an alternate director of Banchile Trade Services Limited. He holds a degree in business from the Pontificia Universidad Catolica de Chile.

*Luis Felipe Bravo F.* has been the manager of the credit risk division since 2002. Mr. Bravo joined us in 1986 and has served various positions, including manager of corporate and international credit, manager of corporate banking and manager of credit risk. Previously, he was a director of Carvalho Hosken and credit manager at Citibank N.A. He is a member of the board of directors of Socofin S.A. and holds degrees in commercial engineering and accounting from the Pontificia Universidad Catolica de Chile.



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*Alejandro Herrera A.* has been the manager of the individual banking and branches division since 2002. He has served as the manager of the individual banking and branches division at Banco de A. Edwards from 2000 to 2001 and at Banco Sudamericano from 1996 to 1999, as the chief executive officer of Administradora de Fondos Mutuos Santiago S.A. from 1994 to 1995 and as branches manager at Banco Santiago for the Santiago region. Mr. Herrera is the chairman of the board of directors of Promarket S.A. He is also a member of the board of directors of Banchile Administradora General de Fondos S.A., Banchile Asesoria Financiera S.A., Banchile Securitizadora S.A. and Socofin S.A. and a member of the executive committee of Banchile Corredores de Seguros Limitada. He holds a degree in business from the Pontificia Universidad Catolica de Valparaiso.

*Marcelo Caracci L.* has been the manager of the operations and technology division since 2001. Prior to that time, Mr. Caracci was founder and director of two technology companies, Sonda Bancos and Sonda Peru. He participated actively in the development and startup of Redbank, Transbank, Servipag and Deposito Central de Valores S.A. He holds a degree in civil engineering from the Pontificia Universidad Catolica de Chile.

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

*Jennie E. Coleman A.* joined us as the manager of the human resources division in 2003. Previously, Mrs. Coleman was the manager of the human resources division, manager of organizational development and training chief executive at Banco Santiago. Mrs. Coleman holds a degree in public administration from the Universidad de Chile.

*Arturo Tagle Q.* has been the manager of the planning and research division since 2002. He was general manager of the Chilean Bankers Association from 1990 to 1994 and Director of research at the Chilean Superintendency of Banks from 1984 to 1989. Mr. Tagle is the chief executive officer of Sociedad Matriz del Banco de Chile S.A. and SAOS. He holds a degree in commercial engineering from the Pontificia Universidad Catolica de Chile and a masters degree in business administration from the University of Chicago.

*Alvaro Cambara L.* has been the manager of the marketing division since 2002, and was previously the manager and marketing manager of the individual banking division. Mr. Cambara has held several positions in our corporate and marketing divisions and was marketing manager at AFP Provida S.A. Mr. Cambara holds a degree in business from Pontificia Universidad Catolica de Chile.

*Pedro Bolados M.* has been the manager of the risk control division since January 2002, and was previously comptroller of Banco de A. Edwards. He joined Banco de A. Edwards in 1992 after holding the position of corporate audit vice president at Citibank N.A. in Latin America. Mr. Bolados holds an executive masters degree in business administration from the Pontificia Universidad Catolica de Chile.

*Eduardo Ebensperger O.* has been the manager of the middle market division since June 2005, and was previously the chief executive officer of Banchile Factoring S.A. from 2002 to 2005. He joined Banco de A. Edwards in 1989. Mr. Ebensperger was manager of the medium size companies division and manager of the regional branches of Banco de A. Edwards from 1997 to 2001. Presently, he is a member of the board of directors of Banchile Asesoria Financera S.A. Mr. Ebensperger holds a degree in business from the Universidad de Chile.



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*Alicia Sandoval Q.* has been the manager of the special business division since 2002 and previously served as the manager of specialized credits in the corporate division. Mrs. Sandoval was assistant manager and an advisor to the chief executive officer of Industria Azucarera Nacional S.A. and an analyst at Corporacion de Fomento. Mrs. Sandoval holds degrees in commercial engineering and accounting from the Universidad de Chile.

*Juan Cooper A.* has been the manager of the Credichile division since 2003. He was the chief executive officer of Altavida Santander Compañía de Seguros de Vida S.A. from 2001 to 2002 and the manager of the Santiago express division of Banco Santiago from 1993 to 2000. He is also a current member of the board of directors of Promarket S.A. and Socofin S.A., and a member of the executive committee of Banchile Corredores Seguros Limitada. Mr. Cooper has a degree in business from the Universidad de Chile and a masters degree in business administration from the Pontificia Universidad Católica de Chile.

*Vivianne Sarniguet K.* has been the manager of the global compliance division since 2005. She was country compliance officer and internal audit head in Chile at Citibank, N.A. Ms. Sarniguet is a member of the executive committee for anti-money laundering of the Chilean Banks Association and has participated on behalf of the Chilean Banks Association with the Chilean government and Chilean Congress on the development of anti-money laundering legislation. Ms. Sarniguet holds a law degree from Universidad Diego Portales.

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

**COMPENSATION**

The table below presents the amount of compensation, as established at the general shareholders meetings, to the members of our board of directors for the year ended December 31, 2004. These amounts include remuneration for services, fees for attendance at board meetings, committee meetings and subsidiary board meetings and consulting and travel expenses.

Name of Director	Remuneration	Fees for attendance at board meetings	Fees for attendance at committee meetings and subsidiary board meetings	Consulting and travel expenses	Total
(in millions of constant Ch\$ as of December 31, 2004)					
Fernando Cañas B. (1)					
Jorge Ergas H. (2)					
Segismundo Schulín-Zeuthen S.	Ch\$ 115.9	Ch\$ 40.1	Ch\$ 153.0	Ch\$ 5.0	Ch\$ 314.0
Andronico Luksic C.	115.9	13.7		36.2	165.8
Jorge Awad M.	40.9	18.8	111.1		170.8
Jorge Díaz V. (3)	40.9	21.3	39.2	5.0	106.4
Edmundo Eluchans U.	40.9	19.6	46.0		106.5
Jacob Ergas E.	40.9	14.5	65.7		121.1
Guillermo Luksic C.	40.9	11.9	12.8		65.6
Rodrigo Manubens M.	40.9	19.6	131.7	146.1(4)	338.3
Gonzalo Menéndez D.	40.9	20.4	165.4	44.7	271.4
Maximo Pacheco M.	40.9	18.7	6.0		65.6

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Francisco Perez M.	40.9	19.6	60.6		121.1
Maximo Silva B. (5)	40.9	21.3	66.5		128.7
Manuel Sobral F. (6)	37.4	18.7	69.1		125.2
Thomas Fürst F.	3.5	2.6	3.5		9.6
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	Ch\$ 681.7	Ch\$ 260.8	Ch\$ 930.6	Ch\$ 237.0	Ch\$ 2,110.1
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

- (1) Mr. Cañas was elected as a director in 2005.
- (2) Mr. Ergas was elected as an alternate director in 2005.
- (3) Mr. Diaz is no longer a member of our board of directors.
- (4) Includes fees for consulting agreed upon by the board of directors of Ch\$77.9 million.
- (5) Mr. Silva is no longer a member of our board of directors.
- (6) Mr. Sobral is no longer a member of our board of directors.



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Consistent with Chilean law, we do not disclose to our shareholders, or otherwise make public, information regarding the compensation of our senior management. For the year ended December 31, 2004, the aggregate amount of compensation paid to our senior management, including the senior management of our subsidiaries, was Ch\$4,521 million. Pursuant to the Chilean Corporations Law, our directors/audit committee must approve compensation plans, but we are not required to have a compensation committee. For the year ended December 31, 2004, no amounts were set aside or accrued by us to provide pension, retirement or similar benefits for our directors and officers.

### **Indebtedness of Directors and Executive Officers**

The Chilean Corporations Law provides that any transaction in which a director has a personal interest or is acting on behalf of a third party must be previously approved by the board of directors. The transaction may be approved only when the board has been informed of such director's interest and the terms of such transaction are similar to those prevailing in the market. If the proposed transaction involves amounts considered material, the board must previously determine that such transaction is consistent with conditions prevailing in the market. If it is not possible for the board to reach such a judgment, the board may appoint two independent evaluators. The evaluators' final conclusions must be made available to shareholders and directors for a period of 20 business days, during which shareholders representing 5% or more of the issued voting shares may request the board to summon a shareholders' meeting to resolve the matter, with the agreement of two-thirds of the issued voting shares.

For purposes of this regulation, the law provides that the amount of a proposed transaction is material if (1) it exceeds 1% of the company's paid-in capital and reserves (provided that it also exceeds 2,000 UF), or (2) it exceeds 20,000 UF. All resolutions approving such transactions must be reported to the company's shareholders at the next annual shareholders' meeting. Violations of this provision may result in administrative or criminal sanctions and civil liability to shareholders or third parties who suffer losses as a result of such violation.

Chilean law contains additional provisions restricting transactions with affiliates not involving directors or executive officers. The Chilean Corporations Law requires that our transactions with related parties be on market terms or on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is to be entered into. Directors of companies that violate this provision are liable for losses resulting from such violation. As disclosed in note 16 to our audited consolidated financial statements, we incurred an aggregate of Ch\$8,943 million in expenses and Ch\$108 million in income from transactions other than loans with related parties in 2004.

As authorized by the General Banking Law, and within applicable regulatory limits, we also hold several outstanding loans owed by different affiliated corporations. All such loans

were made in the ordinary course of business;

were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons; and

did not involve more than the normal risk of collectibility or present other unfavorable features.

We held an aggregate of Ch\$130,759 million in loans to, including Ch\$49,986 million in collateral pledged by, related parties as of December 31, 2004. See note 16 to our audited consolidated financial statements for details concerning these transactions.



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**BOARD PRACTICES**

**Governance Practices**

The board of directors delegates certain functions and activities to our committees to research, evaluate and report to the board of directors regarding specific matters which may affect our businesses.

***The Directors/Audit Committee***

Prior to March 24, 2005, the directors' committee and audit committee were separate committees performing independent functions for the board of directors. On March 24, 2005, the board of directors resolved to merge the directors' committee with the audit committee forming the directors/audit committee. This new committee will have the same characteristics, perform the same duties and require the same conditions for membership as the prior directors' and audit committees. In addition, the directors/audit committee will oversee and receive reports from the global compliance division, which is in charge of implementing an anti-money laundering program and ensuring that all applicable U.S. regulations are implemented in our Miami and New York branches.

Our directors/audit committee is composed of three members, as appointed by the board of directors. For purposes of matters required to be addressed by our audit committee, we have a two voting members and one non-voting member. For purposes of matters required to be addressed by our directors committee, we have three voting members. Members serve on the committee for the same term that they serve as directors and may be re-elected. Under Chilean law, the majority of the members of a company's directors committee must be independent. Additionally, under applicable resolutions from the Chilean Superintendency of Banks, the board of directors must set standards, based on international independence criteria, for determining audit committee member independence. Under U.S. federal securities laws, all members of our directors/audit committee are required to meet the independence criteria of Rule 10A-3 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, beginning July 31, 2005.

The following directors were appointed as members of the directors/audit committee by the board of directors at the meeting held on March 24, 2005:

Jorge Awad M. (chair),

Gonzalo Menendez D., and

Thomas Fürst F.

Mr. Jorge Awad M. and Mr. Thomas Fürst F. satisfy the independence requirements under both Chilean law and Rule 10A-3 and are full voting members of our directors/audit committee. Mr. Gonzalo Menendez D. is exempt from the independence requirements of Rule 10A-3 pursuant to an exemption in Rule 10A-3(b)(1)(iv)(D). Under that exemption, he is a non-voting member of our directors/audit committee with respect to all matters required to be addressed by our audit committee under U.S. federal securities laws. We do not believe that reliance on the exemption in

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Rule 10A-3(b)(1)(iv)(D) would materially adversely affect the ability of our directors/audit committee to act independently and perform its duties.

The directors/audit committee meets monthly and no less frequently than eight times a year, and its budget is approved annually at the ordinary shareholders meeting. The directors/audit committee satisfies the applicable requirements of the Chilean Superintendency of Banks and operates pursuant to a charter document. The Chilean Superintendency of Banks recommends that at least one of the members of the committee be experienced with respect to the accounting procedures and financial aspects of banking operations. The committee submits a report regarding its activities to our board of directors after each directors/audit committee meeting, and presents an annual report at our annual shareholder s meeting.

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*Directors/Audit Committee Duties.* The committee may appoint independent personnel to carry out specific duties. The duties of the directors/audit committee include:

reviewing and approving all related party transactions;

reviewing annual and interim financial statements and informing the board of directors of the results of such reviews;

reviewing the audit reports prepared by our internal comptroller and supervising our controlling divisions;

reviewing the reports, procedures and work of our external auditors and interacting with rating agencies;

selecting external auditors and rating agencies to be proposed to the board of directors;

coordinating with and delegating or recommending tasks to our internal and external auditors;

discussing the effectiveness and reliability of internal control procedures;

informing the board of directors of any change in accounting principles and its effects;

discussing the compensation structure and self-evaluation process for senior management;

reviewing and discussing money-laundering procedures, prevention, policies and compliance;

reviewing complaints presented by our clients to the Chilean Superintendency of Banks;

reviewing and deliberating on issues related to conflicts of interests;

investigating suspected fraudulent activities;

reviewing the inspection reports, instructions and presentations from the Chilean Superintendency of Banks;

reviewing the performance of information systems, their efficiency, reliability and utility in decision making; and

intervening in any other situation where intervention is warranted in the committee's discretion.

*Portfolio Committee*

The main function of the portfolio committee is to inform the board of directors of changes in the composition and risk of our loan portfolio. The committee closely reviews the performance of our principal debtors, overdue loan ratios, past-due loan indicators, write-offs and allowances for loan losses.

The portfolio committee prepares proposals for discussion with, and approval by, the board of directors with respect to credit policies, portfolio evaluation methods and the calculation of allowances for expected loan losses. The committee also performs analyses of the adequacy of allowances, authorizes extraordinary loan write-offs once recovery attempts have been exhausted and controls the disposal of assets acquired in lieu of payment.

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The portfolio committee meets on a monthly basis and is comprised of five directors, in addition to our chief executive officer and the managers of our credit risk and special business divisions.

### ***Directors Credit Committee***

The directors credit committee provides the highest level of approval of credit proposals presented by our credit risk area and commercial officers. The committee evaluates proposals with respect to loans that would expose us to credit risks in excess of UF 250,000. The directors credit committee also evaluates proposals based upon certain qualitative aspects, irrespective of approval amounts, such as the approval of customers whose eventual collections might adversely affect our corporate image or the approval of transactions with related parties. The committee meets on a weekly basis and is comprised of our chief executive officer and the entire board of directors, with quorum requiring three directors.

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

The finance and international committee provides a forum for members to discuss and analyze the implementation of financial management policies. The committee meets monthly and is comprised of five directors, our chief executive officer, the financial division manager, the corporate and international division manager, the planning and research division manager and the financial risk manager. Committee members conduct analyses and make presentations to the committee regarding certain matters, including:

defining market risk policies, procedures and limits;

control of market risk limits, liquidity and other regulatory financial limits. See Item 11. Quantitative and Qualitative Disclosures About Market Risk and Item 4. Information on the Company Regulation and Supervision;

new operations and financial businesses;

monitoring positions and related market risks;

control of counterparty exposure in financial derivatives;

analysis of our current and forecasted financial structure;

allocating our capital to different lines of business;

defining policies setting the cost of funds; and

monitoring the condition of foreign branches.

***The Disclosure Committee***

In May 2003, we established the disclosure committee, a management entity that formalizes the tasks necessary to ensure that information we provide to the market is detailed, accurate and complete. The members of the disclosure committee include the investor relations manager, the principal accounting officer, deputy general counsel, the managers of the risk control division, research area, planning and research division and global compliance division, and, as necessary, persons from our other divisions. The members of the disclosure committee have been involved in the drafting of this annual report and are involved in the preparation of our quarterly disclosures.



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**NYSE Corporate Governance Comparison**

Pursuant to Section 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Chilean bank with shares listed on the Santiago Stock Exchange, the LSE and the Latibex. Our corporate governance practices are governed by our bylaws, the General Banking Law, the Chilean Corporations Law, the *Ley de Mercado de Valores No. 18,045*, or the Securities Market Law, and the regulations issued by the Chilean Superintendency of Banks.

The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

**NYSE Standards**

***Director Independence.*** *Majority of board of directors must be independent. Controlled companies, which would include our company if it were a U.S. issuer, are exempt from this requirement. §303A.01*

***Executive Sessions.*** *Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03*

***Audit committee.*** *Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act, and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07*

**Our Corporate Governance Practice**

Pursuant to the General Banking Law; we are not required to make a determination as to the independence of our directors.

Pursuant to the Chilean Corporations Law, we must determine whether the members of our directors/audit committee (all of whom are members of our board of directors) are independent.

The definition of independence applicable to us pursuant to the Chilean Corporations Law differs in certain respects from the definition applicable to U.S. issuers under the NYSE rules.

Under the Chilean Corporations Law, a director is deemed to be an independent member of the directors/audit committee if such member would have been elected as a director at the shareholders meeting after excluding the votes of any controller or party related to it. Under the regulations of the Chilean Superintendency of Banks, members of the audit committee must satisfy international independence criteria.

There is no similar requirement under our bylaws or under applicable Chilean law.

We will be required to comply with Rule 10A-3 by July 31, 2005. The members of our audit committee are not required to satisfy the NYSE independence and other audit committee standards that are not prescribed by Rule 10A-3.

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**NYSE Standards**

***Nominating/corporate governance committee.*** *Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. Controlled companies, which would include our company if it were a U.S. issuer, are exempt from these requirements. §303A.04*

***Compensation committee.*** *Compensation committee of independent directors is required, which must approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. Controlled companies, which would include our company if it were a U.S. issuer, are exempt from this requirement. §303A.05*

***Equity compensation plans.*** *Equity compensation plans require shareholder approval, subject to limited exemptions.*

***Code of Ethics.*** *Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. §303A.10*

**Our Corporate Governance Practice**

For a description of the duties of our audit committee under applicable Chilean law, see Governance Practices Directors/Audit Committee Directors/Audit Committee Duties.

We are not required to have, and do not have, a nominating/corporate governance committee.

We are not required to have a compensation committee. Pursuant to the Chilean Corporations Law, our directors/audit committee must approve compensation plans.

Equity compensation plans require shareholder approval, subject to limited exemptions.

We have adopted a code of ethics applicable to all of our directors and executive officers, which has been included as an exhibit to this annual report on Form 20-F. We are required by Item 16B of Form 20-F to disclose any waivers granted to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions. Our code of ethics sets forth the principles and values that govern personnel conduct as well as other issues such as; conflicts of interests, usage of the privileged information, internal controls for fraud prevention and labor responsibility.

**Table of Contents****EMPLOYEES**

The following table shows the breakdown of our full-time, permanent employees at the dates indicated:

	<b>As of December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Banco de Chile	5,671	6,093	6,361
Overseas branches and representative offices	48	47	52
Subsidiaries	2,936	2,993	2,952
<b>Total</b>	<b>8,655</b>	<b>9,133</b>	<b>9,365</b>

At December 31, 2004, we had 9,365 employees (on a consolidated basis) of which approximately 1,892, or 20.2%, were unionized. All management positions are held by non-unionized employees. We are party to four collective bargaining agreements (one of which we assumed as part of the merger with Banco A. Edwards) covering our unionized employees. These collective bargaining agreements were signed in December 2004 and expire in December 2008. We have not experienced a strike in the last 10 years and consider relations with our employees to be satisfactory.

We have a comprehensive personnel training and development program that includes internal courses on operational, technical and commercial subjects as well as participation in external seminars. In 2004, the total cost of training programs was approximately 1.1% of total personnel salaries and expense. We do not maintain any pension or retirement programs for the vast majority of our employees. We do, however, pay certain long-serving key employees a severance payment upon retirement. Although we have, in the past, provided productivity bonuses to individual employees on a discretionary basis, we do not maintain a formal profit-sharing plan.

**SHARE OWNERSHIP**

Mr. Andronico Luksic and Mr. Guillermo Luksic, members of our board of directors since March 2002 and March 2001, respectively, together with members of their family, control Quiñenco S.A. As of May 31, 2005, Quiñenco S.A. owns 20.23% of our outstanding shares (directly and indirectly through LQ Inversiones Financieras S.A.). Additionally, Quiñenco S.A. holds 53.50% of the voting rights in Banco de Chile (directly and indirectly through shares of SM-Chile S.A. that are owned by LQ Inversiones Financieras S.A. and Inversiones LQ-SM S.A.).

Mr. Jacob Ergas, a member of our board of directors since January 1, 2002, controls Ever I Bae S.A., Inversiones Aspen Limitada, Inversiones e Inmobiliaria el Rosal S.A., Inversiones Interover S.A. and Inversiones el Norte y el Rosal S.A. These holding companies own 5.05%, 1.65%, 0.37%, 0.04% and 0.00% of our outstanding shares, respectively. Mr. Ergas holds 7.10% of the voting rights in Banco de Chile through these holding companies.

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None of our directors or senior management (other than Mr. Andronico Luksic, Mr. Guillermo Luksic and Mr. Jacob Ergas) owns 1% or more of our outstanding common stock. Further, none of our directors (including Mr. Andronico Luksic, Mr. Guillermo Luksic and Mr. Jacob Ergas) or senior management have different or preferential voting rights with respect to the shares they own.

We do not have any arrangements for involving employees in our capital, including any arrangements that involve the issue or grant of options of our shares or securities.

**Table of Contents****Item 7. Major Shareholders and Related Party Transactions****MAJOR SHAREHOLDERS**

The following table sets forth certain information concerning the ownership of our outstanding shares as of May 31, 2005. None of our shares are subject to options or have different voting rights. As of May 31, 2005, there were 7,919 record holders of our shares in Chile who held 99.46% of our outstanding shares.

The calculation of percentages in the Percentage of Outstanding Shares column in the table below is based upon the number of our shares issued and outstanding as of May 31, 2005. There are no shares subject to options.

Name	Shares Beneficially Owned	Percentage of Shares	Shares Owned of Record	Percentage of Outstanding Shares	Number of Votes (7)	Percentage of Votes
LQ Inversiones Financieras S.A.(1)			13,762,345,978	20.22%	34,228,775,667	51.57%
Inversiones LQ-SM S.A.(2)					1,277,323,323	1.92%
Quiñenco S.A.			8,958,886	0.01%	8,958,886	0.01%
Ever I Bae S.A.(3)			3,352,452,374	4.92%	3,352,452,374	5.05%
Inversiones Aspen Limitada (3)			1,093,065,478	1.61%	1,093,065,478	1.65%
Inversiones e Inmobiliaria el Rosal S.A.(3)			244,572,358	0.36%	244,572,358	0.37%
Inversiones Interover S.A. (3)			24,770,287	0.04%	24,770,287	0.04%
Inversiones el Norte y el Rosal S.A. (3)			472,336	0.00%	472,336	0.00%
JP Morgan Chase Bank (4)			364,289,400	0.54%	364,289,400	0.55%
SM-Chile S.A.(5)	41,152,288,834	60.45%	12,558,587,045	18.45%		
SAOS (5)			28,593,701,789	42.00%		
Directors and executive officers as a group (27 persons)			21,419,337	0.03%	84,849,712	0.13%
Banco de Chile (6)			1,701,696,936	2.50%		
Other shareholders	26,927,494,771	39.55%	6,353,451,401	9.33%	25,698,556,848	38.72%
<b>Total</b>	<b>68,079,783,605</b>	<b>100.00%</b>	<b>68,079,783,605</b>	<b>100.00%</b>	<b>66,378,086,669</b>	<b>100.00%</b>

(1) LQ Inversiones Financieras S.A. is a holding company beneficially owned by Quiñenco S.A. At December 31, 2004, 82.5% of the common shares of Quiñenco S.A. were beneficially owned by members of the Luksic family or their affiliates. Quiñenco S.A. is a corporation organized under the laws of Chile, and is engaged in a wide range of business activities in Chile, including (1) banking and financial services through their interest in us, (2) the production, bottling and distribution of beer, wine, soft drinks and other beverages (through a 30.8% interest in Compañía Cervecerías Unidas S.A.), (3) telecommunications (through ownership of a controlling interest in Compañía Nacional de Telefonos Telefonica del Sur S.A. and Compañía de Telefonos de Coyhaique S.A.), (4) copper and aluminum manufacturing operations and consumer product packaging (through a controlling interest in Madeco S.A.), (5) copper and gold mining operations, in railway operations and real estate (through Antofagasta Plc) and (6) other investments in real estate, hotel administration and the confectionary business.

(2) Inversiones LQ-SM S.A. is a wholly owned subsidiary of LQ Inversiones Financieras S.A.

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- (3) Ever I Bae S.A., Inversiones Aspen Limitada, Inversiones e Inmobiliaria el Rosal S.A., Inversiones Interover S.A. and Inversiones el Norte y el Rosal S.A. are holding companies under the control of Mr. Jacob Ergas.
- (4) JP Morgan Chase Bank is the depositary bank of our ADS facility.
- (5) The sum of the shares directly held by SAOS and SM-Chile equals the amount of shares beneficially owned by SM-Chile because SM-Chile is the parent company of SAOS.
- (6) Shares repurchased by us under our share repurchase program. Repurchased shares do not have voting or dividend rights.
- (7) The differences that exist between the number of shares owned of record and the number of votes are explained by the voting rights that are attributed to the shares of SM-Chile S.A. which collectively are owned by LQ Inversiones Financieras S.A., Inversiones LQ-SM S.A. and various of our directors and executive officers. Additionally, the percentages in the outstanding shares and votes columns differ due to the fact that the shares repurchased by Banco de Chile do not have voting rights.

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**RELATED PARTY TRANSACTIONS**

In the ordinary course of our business, we engage in a variety of transactions with certain of our affiliates and related parties. Financial information concerning these transactions is set forth in note 16 to our audited consolidated financial statements. The Chilean Corporations Law requires that our transactions with related parties be on market terms or on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market on the date the transaction is entered into. Directors of companies that violate this provision are liable for losses resulting from such violations.

In addition, the Chilean Corporations Law provides that any transaction in which a director has a personal interest or is acting on behalf of a third party must be previously approved by a majority of the disinterested directors on the company's board of directors. The terms of such transaction must be similar to those prevailing in the market. If the proposed transaction involves amounts considered to be material, the disinterested directors must previously determine that the terms and conditions of the transaction are consistent with those prevailing in the market. If it is not possible for the board to reach such a judgment on its own, the board may appoint two independent evaluators. The evaluators' final conclusions must be made available to shareholders and directors for a period of 20 business days, during which shareholders representing 5% or more of the issued voting shares may request the board to summon a shareholders' meeting to resolve the matter, with the agreement of two-thirds of the issued voting shares required for approval. For purposes of this requirement, the Chilean Corporations Law considers that the amount of a proposed transaction is material if (1) it exceeds 1% of the company's paid-in capital and reserves, (provided that it also exceeds UF2,000) or (2) it exceeds UF20,000.

All resolutions approving such transactions must be reported to the company's shareholders at the next annual shareholders' meeting. Violations of this provision may result in administrative or criminal sanctions and civil liability to shareholders or third parties who suffer losses as a result of such violation. We believe that we have complied with the applicable requirements of the Chilean Corporations Law in all transactions with related parties and affirm that we will continue to comply with such requirements. See note 16 to our audited consolidated financial statements for a more detailed accounting of transactions with related parties.

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

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

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

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

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

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





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On December 27, 2004, we entered into a service contract with Entel Chile S.A. to modernize our telecommunication systems. Entel Chile S.A. is beneficially owned by Quiñenco S.A. The contract was awarded to the best offer in a bidding process in which other telecommunications companies participated and is worth more than 20,000 U.F. annually.

## **Loans to Related Parties**

As authorized by the General Banking Law, and within the regulatory limits, we hold several outstanding loans owed by different corporations related to us. All such loans (a) were made in the ordinary course of business, (b) were made on terms, including interest rates and collateral, substantially the same as those prevailing at the time for comparable transactions with other persons, and (c) did not involve more than the normal risk of collectibility or present other unfavorable features. See note 16 to our audited consolidated financial statements.

## **Item 8. Financial Information**

### **CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

#### **Audited Consolidated Financial Statements**

Please refer to Item 18. Financial Statements.

#### **Legal Proceedings**

We and our subsidiaries are subject to claims and are parties to legal proceedings in the normal course of business.

Beginning in September 2004, the OCC and the Federal Reserve conducted examinations of our New York and Miami branches, respectively, to evaluate, among other things, our compliance with the U.S. Bank Secrecy Act and other U.S. anti-money laundering requirements. As a result of these examinations, on February 1, 2005, we agreed to the issuance of a consent order with the OCC and a cease and desist order with the Federal Reserve. Pursuant to these orders, we have instituted an action plan which includes the maintenance of programs geared towards strengthening our compliance with the Bank Secrecy Act and United States anti-money laundering laws.

We have created a global compliance division to oversee our compliance with applicable banking regulations and to implement related policies and procedures. We have established a new senior executive position, the global compliance officer, to manage the division in Chile and our New York and Miami branches. Additionally, we have created the U.S. chief compliance officer position to manage compliance in the U.S. and report to the global compliance officer.

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Based on the press statement issued by the OCC at the time the consent order was entered into, civil money penalties and other sanction are possible, but the likelihood, extent and amount of such actions cannot be determined at this time. See notes 22(c) and 27(a) to our audited consolidated financial statements.

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### **Dividends**

The dividends on our shares are proposed by our board of directors and are approved by our shareholders at the annual ordinary shareholders meeting following the year with respect to which the dividends are proposed. Our annual ordinary shareholders meeting is held in the first three months of each year. Following shareholder approval, the dividends are declared and paid. Dividends are paid to shareholders of record on the fifth business day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of our ADSs are, to the extent practicable, the same. Under the Chilean Corporations Law and regulations issued thereunder, Chilean public corporations are generally required to distribute at least 30% of their earnings as dividends, but a bank is permitted to distribute less than such minimum amount in any given year if the holders of at least two-thirds of our outstanding stock so determine. Under the General Banking Law, a Chilean bank may only pay a single dividend per year (*i.e.*, interim dividends are not permitted). It is our current policy to pay 100% of our earnings as dividends.

Our dividend policy is affected to some extent by the rights of SAOS, our affiliate, pursuant to its assumption of the Central Bank indebtedness discussed in Item 5. Operating and Financial Review and Prospects Overview The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt.

We currently have one class of capital shares. In March, 2005, we paid a nominal dividend of Ch\$2.2993 per share.

Dividends payable to holders of our ADSs are net of conversion expenses of the depositary and are subject to Chilean withholding tax currently at the rate of 35%, subject to certain credits. Owners of our ADSs are not charged any fees with respect to cash or stock dividends.

Pursuant to current Chilean foreign exchange regulations, a shareholder who is not a resident of Chile need not register as a foreign investor in order to receive dividends, sale proceeds or other amounts with respect to its shares remitted outside Chile, but the investor must inform the Central Bank about any such transactions and must remit foreign currency through the Formal Exchange Market. Under the foreign investment contract, the depositary, on behalf of our ADS holders, will be granted access to the Formal Exchange Market to convert cash dividends from Chilean pesos to U.S. dollars and to pay such U.S. dollars to ADS holders outside Chile.

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The following table sets forth the cash dividends declared on each share of our common stock and per ADS during the periods indicated:

	As of and for the Year Ended December 31,					
	2000	2001	2002	2003	2004	2004
	(in constant Ch\$ as of December 31, 2004, except for percentages in U.S.\$)					
Dividend payout ratio(1)	127.2%	100.0%	100.0%	100.0%	100.0%	100.0%
Dividend per common share(2)	2.07	2.00	2.07	0.80	2.03	0.0036
Dividend per F shares(2)	n.a.	n.a.	0.47	n.a.	n.a.	n.a.
Dividends per ADS of F shares(2)(3)	n.a.	n.a.	282.00	n.a.	n.a.	n.a.
Dividend per Banco de A. Edwards shares(2)		0.24	n.a.	n.a.	n.a.	n.a.
Dividends per ADS of Banco de A. Edwards(2)(4)		38.71	n.a.	n.a.	n.a.	n.a.

Note: n.a. = not applicable.

- (1) Dividend payout ratio is calculated by dividing the amount of dividends paid by the earnings per share of the prior year.
- (2) Dividends per share and per ADS data are calculated by dividing the amount of the dividend paid by the number of shares outstanding, excluding shares repurchased through our share repurchase program.
- (3) Calculated on the basis of 600 shares per ADS.
- (4) Calculated on the basis of 165 shares per ADS.

In 2002, as a consequence of the merger, we paid a dividend to holders of our common shares and to holders of F shares. Once the dividends were paid, the F shares were converted into common shares. See Item 10. Additional Information Memorandum and Articles of Association Capitalization.

Whether future dividends will be paid will depend upon our earnings, financial condition, capital requirements, governmental regulations and policies and other factors. Accordingly, there can be no assurance that dividends in future years will be paid at a rate similar to dividends paid in past years.

**SIGNIFICANT CHANGES**

No significant changes in our financial condition have occurred since the date of the most recent audited consolidated financial statements included in this annual report.

**Item 9. The Offer and Listing**

### **Nature of Trading Market**

Shares of our common stock are traded on the Chilean stock exchanges. They have been listed on the Santiago Stock Exchange since 1894, on the Electronic Stock Exchange since 1989 and on the Valparaiso Stock Exchange since 1894. The Santiago Stock Exchange is the principal trading market for our shares.

The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The Santiago Stock Exchange, which is Chile's principal exchange, had a market capitalization of approximately U.S.\$116.2 billion as of December 31, 2004 and an average monthly trading volume of approximately U.S.\$1,090 million for 2004. The Santiago Stock Exchange was established in 1893 and is a private company whose equity consists of 48 shares held by 46 shareholders. As of December 31, 2004, 279 series of shares were listed on the Santiago Stock Exchange.

The Santiago Stock Exchange accounts for approximately 81.8% of all amounts traded in Chile. The ten largest companies in terms of market capitalization represented, as of December 31, 2004, approximately 44.5% of the Santiago Stock Exchange's aggregate market capitalization and during 2004 accounted for approximately 28.9% of its total volume. During 2004, 19.7% of the companies listed on the Santiago Stock Exchange had their shares traded on an average of 70% or more of the exchange's trading days. Approximately 17.0% of equity trading in Chile is conducted on the Chilean Electronic Stock Exchange, an

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electronic trading market that was created by banks and non-member brokerage houses. The remaining 1.2% of equity is traded on the Valparaiso Stock Exchange.

ADSs, each representing 600 shares of common stock, without nominal (par) value, have been listed on the NYSE since January 2, 2002 under the symbol BCH. JPMorgan Chase Bank is our depository for purposes of issuing the ADRs evidencing our ADSs. As of December 31, 2004, a maximum of 551,111 ADSs were outstanding (equivalent to 330,666,600 shares of common stock or 0.49% of the total number of issued shares of common stock). It is not practicable for us to determine the proportion of ADSs beneficially owned by U.S. persons. 100% of record holders addresses are in the United States. Since certain of our ADSs are held by brokers or other nominees, the number of direct record holders in the United States may not be fully indicative of the number of direct beneficial owners in the United States or of where the direct beneficial owners of such shares are resident.

We listed our shares on Latibex, and trading of our shares started on that exchange on October 8, 2002 under the code XBCH, grouped in trading units of 600 shares. In addition, since December 20, 2002, our shares are listed on the LSE.

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

	Santiago Stock Exchange		Electronic Stock Exchange		Valparaiso Stock Exchange	
	Common Stock		Common Stock		Common Stock	
	High	Low	High	Low	High	Low
	(Ch\$ per share )(1)		(Ch\$ per share )(1)		(Ch\$ per share )(1)	
<b>Annual Price History</b>						
2000	Ch\$ 27.0	Ch\$ 21.0	Ch\$ 26.0	Ch\$ 21.0	Ch\$ 26.0	Ch\$ 21.0
2001	28.0	21.7	28.0	21.6	28.0	21.6
2002	26.0	16.8	25.2	16.5	25.0	17.0
2003	32.0	19.2	32.0	19.2	32.0	20.3
2004	36.8	26.5	36.8	26.0	36.8	26.5
<b>Quarterly Price History</b>						
2003						
1 <sup>st</sup> Quarter	22.5	19.2	22.5	19.2	22.1	20.3
2 <sup>nd</sup> Quarter	24.6	20.7	25.0	20.8	23.5	20.8
3 <sup>rd</sup> Quarter	25.6	22.5	25.6	22.5	25.6	23.0
4 <sup>th</sup> Quarter	32.0	25.7	32.0	25.3	32.0	26.3
2004						
1 <sup>st</sup> Quarter	32.0	26.5	32.0	26.0	31.9	26.5
2 <sup>nd</sup> Quarter	31.8	28.6	31.9	28.5	31.9	26.5
3 <sup>rd</sup> Quarter	35.8	31.7	35.8	31.7	36.0	31.8
4 <sup>th</sup> Quarter	36.8	34.0	36.8	34.0	36.8	34.3
2005						
1 <sup>st</sup> Quarter	37.7	32.6	38.0	32.3	38.0	32.5
<b>Monthly Price History</b>						
December 2004	36.4	35.3	36.4	35.3	36.5	35.3
January 2005	35.8	33.7	36.0	33.7	35.9	33.7

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February 2005	37.5	34.5	37.5	34.5	37.5	34.5
March 2005	37.7	32.6	38.0	32.3	38.0	32.5
April 2005	33.4	32.4	33.6	32.4	33.5	32.5
May 2005	33.5	32.0	33.5	32.0	33.3	32.5

Sources: Santiago Stock Exchange, Electronic Stock Exchange, Valparaiso Stock Exchange Official Quotation Bulletin.

(1) Pesos per share reflect nominal price at trade date.

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The table below shows the annual, quarterly and monthly high and low closing prices in U.S. dollars and in Euros, respectively, as reported by the NYSE and Latibex:

	NYSE		Latibex	
	ADS(1)		Trading Units(2)	
	High	Low	High	Low
	(U.S.\$ per ADS)		(Euros per Trading Unit)	
<b>Annual Price History</b>				
2004	U.S.\$ 39.05	U.S.\$ 25.30	29.85	21.15
<b>Quarterly Price History</b>				
2004				
1 <sup>st</sup> Quarter	33.65	25.30	26.40	21.15
2 <sup>nd</sup> Quarter	30.01	27.95	24.74	23.15
3 <sup>rd</sup> Quarter	35.30	29.84	29.10	24.32
4 <sup>th</sup> Quarter	39.05	33.70	29.85	26.32
2005				
1 <sup>st</sup> Quarter	39.40	32.97	29.88	25.6
<b>Monthly Price History</b>				
December 2004	39.05	36.59	28.45	27.50
January 2005	38.45	34.55	28.85	26.49
February 2005	39.40	34.60	29.88	26.82
March 2005	39.30	32.97	29.70	25.60
April 2005	35.30	33.34	27.50	25.80
May 2005	34.80	33.25	27.82	26.04

Sources: NYSE and Latibex Official Quotation Bulletin.

(1) One ADS represents 600 shares of common stock.

(2) One Trading Unit represents 600 shares of common stock.

**Item 10. Additional Information****MEMORANDUM AND ARTICLES OF ASSOCIATION**

Set forth below is a brief summary of the significant provisions of our bylaws, or *estatutos* and Chilean law. This description contains all material information concerning our shares, but does not purport to be complete and is qualified in its entirety by reference to our *estatutos* (a copy of which has been incorporated by reference into this annual report), the General Banking Law, the Chilean Corporations Law and the Securities Market Law. For a description of the provisions of our *estatutos* related to our board of directors and our audit committee, see Item 6. Directors, Senior Management and Employees and for those related to our dividends, see Item 8. Financial Information Consolidated Statements and Other Financial Information Dividends.



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We are an open stock (public) corporation. Open stock (public) corporations are those with 500 or more shareholders, or companies in which 100 or more shareholders own at least 10% of the subscribed capital (excluding those whose individual holdings exceed 10%), and all other companies that are registered in the Securities Registry of the Chilean Superintendency of Securities and Insurance. The Chilean Corporations Law sets forth the rules and requirements for establishing open stock corporations. Shareholder rights in a Chilean bank that is also an open stock corporation are governed by the bank's *estatutos*, which effectively serve as both the articles of incorporation and the bylaws of a company incorporated in the United States. Article 137 of the Chilean Corporations Law provides that all provisions of the Chilean Corporations Law take precedence over any contrary provision in a corporation's *estatutos*. Both the Chilean Corporations Law and our *estatutos* provide that legal actions by shareholders against us (or our officers or directors) to enforce their rights as shareholders or by one shareholder against another in their capacity as such are to be brought in Chile in arbitration proceedings.

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The Chilean securities markets are principally regulated by the Chilean Superintendency of Securities and Insurance under the Securities Market Law and the Chilean Corporations Law. In the case of banks, compliance with these laws is supervised by the Chilean Superintendency of Banks. These two laws provide for disclosure requirements, restrictions on insider trading and price manipulation and protection of minority investors. The Securities Market Law sets forth requirements relating to public offerings, stock exchanges and brokers, and outlines disclosure requirements for companies that issue publicly offered securities.

### **Capitalization**

There is currently one outstanding series of our capital stock. We have a total of 68,079,783,605 outstanding shares. All of our shares are fully subscribed and paid and there are no legal restrictions on the payment of dividends from our net income, except that we may only pay a single dividend per year (*i.e.*, interim dividends are not permitted). Chilean public corporations are generally required to distribute at least 30% of their earnings as dividends, but a bank is permitted to distribute less than such minimum amount in any given year if the holders of at least two-thirds of the bank's outstanding stock so determine. All of our shares have full voting rights. As part of our merger with Banco de A. Edwards, Banco de A. Edwards shareholders received F shares of Banco de Chile. The F shares had all of the same rights as our common stock, except that they entitled holders to receive dividends in 2002 with respect to Banco de A. Edwards' 2001 income. Once these dividends were declared and paid, the F shares automatically converted on a one-for-one basis into shares of our common stock. Accordingly, the F shares no longer exist.

Under Chilean law, the shareholders of a company, acting at an extraordinary shareholders' meeting, have the power to authorize an increase in the company's capital. When an investor subscribes for issued shares, the shares are registered in such investor's name, even if not paid for, and the investor is treated as a shareholder for all purposes except with regard to receipt of dividends and the return of capital. The investor becomes eligible to receive dividends or the return of capital once it has paid for the shares; if it has paid for only a portion of such shares, it is entitled to reserve a corresponding pro-rata portion of the dividends declared with respect to such shares unless the company's bylaws provide otherwise. If an investor does not pay for shares for which it has subscribed on or prior to the date agreed upon for payment, the company is entitled under Chilean law to auction the shares on the stock exchange and collect the difference, if any, between the subscription price and the auction proceeds. However, until such shares are sold at auction, the subscriber continues to exercise all the rights of a shareholder (except the right to receive dividends or the return of capital). In the case of banks, authorized shares and issued shares that have not been paid for within the period fixed for their payment by the Chilean Superintendency of Banks are cancelled and are no longer available for issuance by the company.

The Chilean Corporations Law provides that the purchaser of shares of a company implicitly accepts its bylaws and any agreements adopted at shareholders' meetings.

### **Ownership Restrictions**

Under the Securities Market Law and the regulations of the Chilean Superintendency of Banks, shareholders of open stock corporations are required to report the following to the Chilean Superintendency of Securities and Insurance and the Chilean stock exchanges:

any direct or indirect acquisition or sale of shares that results in the holder's acquiring or disposing of, directly or indirectly, 10% or more of an open stock corporation's share capital; and

any direct or indirect acquisition or sale of shares or options to buy or sell shares, in any amount, if made by a holder of 10% or more of an open stock corporation's capital or if made by a director, liquidator, main officer, general manager or manager of such

corporation.

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In addition, any person who acquires 10% or more of our shares must include in the report whether the purpose of the acquisition is to acquire control of us or if he or she is making a financial investment. A beneficial owner of ADSs representing 10% or more of our share capital will be subject to these reporting requirements under Chilean law.

According to the regulations of the Chilean Superintendency of Banks, Chilean banks that issue ADSs are required to inform the Chilean Superintendency of Banks if any person, directly or beneficially, acquires ADSs representing 5% or more of the total amount of shares of capital stock issued by such bank.

Under the Securities Market Law and the regulations of the Chilean Superintendency of Banks, persons or entities intending to acquire control, directly or indirectly, of an open stock corporation are also required to inform the public of such intention at least 10 business days in advance but in any case, as soon as negotiations regarding the change of control begin (*i.e.*, when information and documents concerning the target are delivered to the potential acquiror) through a filing with the Chilean Superintendency of Securities and Insurance, the stock exchanges and the companies controlled by and that control the target and through a notice published in two Chilean newspapers, which notice must disclose, among other information, the person or entity purchasing or selling and the price and conditions of any negotiations.

Prior to such publication, a written communication to such effect must be sent to the target corporation, to the controlling corporation, to the corporations controlled by the target corporation, to the Chilean Superintendency of Securities and Insurance and to the Chilean stock exchanges. Title XV of the Securities Market Law provides the definition of a controlling power, direct holding and related party.

The General Banking Law provides that, as a matter of public policy, no person or company may acquire, directly or indirectly, more than 10% of the shares of a bank without the prior authorization of the Chilean Superintendency of Banks, which may not be unreasonably withheld. The prohibition also applies to beneficial owners of ADSs. In the absence of such authorization, any person or group of persons acting in concert would not be permitted to exercise voting rights with respect to the shares or ADSs acquired. In determining whether to issue such an authorization, the Chilean Superintendency of Banks considers a number of factors enumerated in the General Banking Law, including the financial stability of the purchasing party.

The General Banking Law also requires the prior authorization of the Chilean Superintendency of Banks for:

the merger of two or more banks;

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

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

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

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

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

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

that the margin for interbank loans be diminished to 20% of the resulting bank's total capital.

The General Banking Law and the regulations issued by the Chilean Superintendency of Banks create the presumption that individuals that are holders of shares and who beneficially own more than 1% of the shares are related to the bank and imposes certain restrictions on the amounts and terms of loans to them made by the related bank. This presumption also applies to beneficial owners of ADSs representing more than 1% of the shares.

## **Preemptive Rights and Increases of Share Capital**

The Chilean Corporations Law provides that whenever a Chilean company issues new shares for cash, it must offer its existing shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentages in the company. Pursuant to this requirement, we will offer preemptive rights in connection with any future issue of shares to the depositary as the registered owner of the shares underlying the ADSs. However, the depositary will not be able to make the preemptive rights available to U.S. holders of ADSs unless a registration statement under the Securities Act, is effective with respect to the underlying shares or an exemption from the registration requirements thereunder is available.

We intend to evaluate, at the time of any preemptive rights offering, the practicality under Chilean law and Central Bank regulations in effect at the time of making such rights available to our ADS holders, as well as the costs and potential liabilities associated with the registration of such rights and the related shares of common stock under the Securities Act, and the indirect benefits to us of thereby enabling the exercise by all or certain U.S. holders of ADSs of their preemptive rights and any other factors we consider appropriate at the time. There can be no assurance that any registration statement would be filed. If we do not file a registration statement and no exemption from the registration requirements under the Securities Act is available, the depositary will sell such holders' preemptive rights and distribute the proceeds if a premium can be recognized over the cost of such sale.

In the event that the depositary is not able, or determines that it is not feasible, to sell such rights at a premium over the cost of any such sale, all or certain U.S. holders of ADSs may receive no value for such rights. Non-U.S. holders of ADSs may be able to exercise their preemptive rights regardless of whether a registration statement is filed. The inability of all or certain U.S. holders of ADSs to exercise preemptive rights in respect of shares of common stock underlying such ADSs could result in such holders not maintaining their percentage ownership of the common stock following a preemptive rights offering unless the holder made additional market purchases of ADSs or shares of common stock.

Under Chilean law, preemptive rights are exercisable or freely transferable by shareholders during a period that cannot be less than 30 days following the grant of such rights. During such period, and for an additional 30-day period thereafter, a Chilean company is not permitted to

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offer any unsubscribed shares for sale to third parties on more favorable terms than those offered to its shareholders. At the end of such additional 30-day period, a Chilean open stock corporation is authorized to sell unsubscribed shares to third

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parties on any terms, provided that they are sold on a Chilean stock exchange. Unsubscribed shares that are not sold on a Chilean stock exchange can be sold to third parties only on terms no more favorable to the purchaser than those offered to shareholders.

### **Shareholders Meetings and Voting Rights**

An ordinary annual meeting of shareholders is held within the first three months of each year, generally in March. The ordinary annual meeting of shareholders is the corporate body that approves the annual financial statements, all dividends in accordance with the dividend policy determined by our board of directors and any other matter that does not require an extraordinary shareholders meeting and elects our board of directors. On March 17, 2005, the last ordinary annual meeting of our shareholders was held and a new board of directors was elected for the next three years. Extraordinary meetings may be called by our board of directors when deemed appropriate, and ordinary or extraordinary meetings must be called by our board of directors when requested by shareholders representing at least 10% of the issued voting shares or by the Chilean Superintendency of Banks.

Notice to convene the ordinary annual meeting or an extraordinary meeting is given by means of three notices that must be published in a newspaper of our corporate domicile (currently Santiago, Chile) or in the *Official Gazette* in a prescribed manner, and the first notice must be published not less than 15 calendar days nor more than 20 calendar days in advance of the scheduled meeting. Notice must also be given to the Chilean Superintendency of Banks and the Santiago, Valparaiso and Electronic Stock Exchanges. Currently, we publish our official notices in the *Diario El Mercurio*.

The notice of a shareholders meeting must be mailed not fewer than 15 calendar days prior to the date of such meeting and, in the case of an ordinary annual shareholders meeting, shareholders holding a prescribed minimum investment must be sent an annual report of our activities which includes audited consolidated financial statements. Shareholders who do not fall into this category but who request it must also be sent a copy of our annual report. In addition to these requirements, we regularly provide, and management currently intends to continue to provide, together with the notice of shareholders meeting, a proposal for the final annual dividend.

The quorum for a shareholders meeting is established by the presence, in person or by proxy, of shareholders representing at least an absolute majority of the issued shares; if a quorum is not present at the first meeting on first call, the meeting can be reconvened (in accordance with the procedures described in the previous paragraph) and, upon the meeting being reconvened, shareholders present at the reconvened meeting are deemed to constitute a quorum regardless of the percentage of the shares represented.

The shareholders meetings pass resolutions by the affirmative vote of an absolute majority of those voting shares present or represented at the meeting. A vote by a two-thirds majority of the issued shares, however, required at any shareholders meeting to approve any of the following actions:

a change in corporate form, merger or spin-off;

an amendment to our term of existence or early dissolution;

a change in corporate domicile;

a decrease of corporate capital;

the approval of capital contributions in kind and a valuation of the assets contributed;

a modification of the powers of shareholders or limitations on the powers of our board of directors;



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a reduction in the number of members of our board of directors;

the transfer of 50% or more of the corporate assets or the formation or amendment of any business plan that contemplates the transfer of 50% or more of our corporate assets;

any non-cash distribution in respect of the shares;

the granting of guarantees to secure third-party obligations in excess of 50% of our corporate assets, unless granted to a subsidiary;  
or

the repurchase of shares.

Shareholders may cumulate their votes for the election of directors and cast the same in favor of one person.

In general, Chilean law does not require a Chilean open stock corporation to provide the level and type of information that U.S. securities laws require a reporting company to provide to its shareholders in connection with a solicitation of proxies. Shareholders are entitled to examine the books of a company within the 15-day period before its ordinary annual meeting.

The Chilean Corporations Law provides that whenever shareholders representing 10% or more of the issued voting shares so request, a Chilean company's annual report must include, in addition to the materials provided by the board of directors to shareholders, any shareholders' comments and proposals in relation to the company's affairs. Similarly, the Chilean Corporations Law provides that whenever the board of directors of an open stock corporation convenes an ordinary meeting of the shareholders and solicits proxies for that meeting, or distributes information supporting its decisions or other similar material, it is obligated to include as an annex to its annual report any pertinent comments and proposals that may have been made by shareholders owning 10% or more of the company's voting shares who have requested that such comments and proposals be included.

Only shareholders registered as such with us on the fifth business day prior to the date of a meeting are entitled to attend and vote their shares. A shareholder may appoint another individual (who need not be a shareholder) as his proxy to attend and vote on his behalf. Every shareholder entitled to attend and vote at a shareholders' meeting has one vote for every share subscribed.

**Dividend, Liquidation and Appraisal Rights**

Under the Chilean Corporations Law, Chilean companies are generally required to distribute at least 30% of their earnings as dividends. However, under the General Banking Law, banks are permitted to distribute less than such minimum amount in any given year if holders of at least two-thirds of the bank's common stock so determine. In the event of any loss of capital or decrease in the legal reserve, no dividends can be distributed until the loss is recovered. Also, a bank cannot distribute dividends above the legal minimum if doing so would result in the bank exceeding its maximum indebtedness ratio or its lending limits. See Item 8. Financial Information Consolidated Statements and Other Financial Information Dividends.

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Dividends that are declared but not paid by the date set for payment at the time of declaration are adjusted from the date set for payment to the date they are actually paid, and interest is accrued thereon. The right to receive a dividend lapses if it is not claimed within five years from the date the dividend is payable.

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We may declare a dividend in cash or in shares. When a share dividend is declared above the legal minimum (which minimum must be paid in cash), our shareholders must be given the option to elect to receive cash. A U.S. holder of our ADSs may, in the absence of an effective registration statement under the Securities Act or an available exemption from the registration requirement thereunder, effectively be required to receive a dividend in cash. See Preemptive Rights and Increases of Share Capital.

In the event of our liquidation, the holders of our fully paid shares would participate equally and ratably, in proportion to the number of paid-in shares held by them, in our assets available after payment of all our creditors.

In accordance with the General Banking Law, our shareholders would have no appraisal rights in the event of a business combination or otherwise.

## **Approval of Financial Statements**

Our board of directors is required to submit our audited consolidated financial statements to the shareholders annually for their approval. The approval or rejection of the financial statements is entirely within our shareholders' discretion. If our shareholders reject our financial statements, our board of directors must submit new financial statements not later than 60 calendar days from the date of the rejection. If our shareholders reject our new financial statements, our entire board of directors is deemed removed from office and a new board of directors is elected at the same meeting. Directors who individually approved our financial statements are disqualified from running for re-election for the ensuing period.

## **Registrations and Transfers**

We act as our own registrar and transfer agent, as is customary among Chilean companies. In the case of jointly owned shares, an attorney-in-fact must be appointed to represent the joint owners in dealings with us.

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

On December 20, 2000, the Chilean Congress enacted Law No. 19,705, which amended the Securities Market Law and the Chilean Corporations Law. Among the amendments introduced, Law No. 19,705 established that certain transactions may only be performed via a tender offer. In particular, the acquisition of shares with the intention of obtaining control of an open stock corporation, an offer to buy shares representative of 3% or more of the outstanding shares after obtaining control of an open stock corporation and the sale of shares by controlling shareholders when the price paid is substantially higher than the market price must all be performed by means of a tender offer. According to the Chilean Superintendency of Securities and Insurance, a price should be deemed substantially higher than the market price when it is 10% higher than the average market price for a period starting 90 calendar days and ending 30 calendar days before the proposed transaction.

The amendments introduced to the Chilean Corporations Law by the enactment of Law No. 19,705 also established that:

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

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

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

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

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

**EXCHANGE CONTROLS**

The Central Bank is responsible for, among other things, monetary policies and exchange controls in Chile. Appropriate registration of a foreign investment in Chile grants the investor access to the Formal Exchange Market. Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 or can be registered with the Central Bank under the Central Bank Act.

On April 16, 2001, the Central Bank agreed that, effective April 19, 2001:

the prior foreign exchange restrictions would be eliminated; and

a new *Compendio de Normas de Cambios Internacionales*, or Compendium of Foreign Exchange Regulations, would be applied.

The main objective of this change, as declared by the Central Bank, is to facilitate capital movements from and into Chile and encourage foreign investment.

The following specific restrictions were eliminated:

a reserve requirement with the Central Bank for a period of one year. This mandatory reserve was previously imposed on foreign loans and funds brought into Chile to purchase shares other than those acquired in the establishment of a new company or in the capital increase of the issuing company. This reserve requirement was decreased from 30% to 0% of the proposed investment on September 16, 1998;

the requirement for prior approval by the Central Bank for certain operations, such as repatriation of investments and payments to foreign creditors;

the mandatory return of foreign currencies to Chile; and

the mandatory conversion of foreign currencies into Chilean pesos.

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Under the amended regulations, only the following limitations are applicable to these operations:

the Central Bank must be provided with information related to certain operations, such as foreign investments and foreign credits;  
and

certain operations, such as money transfers to and from Chile must be conducted within the Formal Exchange Market.

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The Central Bank also eliminated Chapter XXVI of the Compendium of Foreign Exchange Regulations, which regulated the establishment of an ADR facility by a Chilean company. According to the new rules, it is not necessary to seek the Central Bank's prior approval in order to establish an ADR facility. The establishment of an ADR facility is now regarded as an ordinary foreign investment. The establishment of an ADR facility now simply requires that the Central Bank be informed of the transaction, and that the transaction be conducted exclusively through the Formal Exchange Market.

### **Foreign Investment Contract**

We are a party, as legal successor of Banco de A. Edwards, to the currently existing foreign investment contract with the Central Bank and the depositary (a copy of which was filed as an exhibit to our Registration Statement on Form F-4 (File No. 333-14020) filed with the Securities and Exchange Commission on October 18, 2001). Absent the foreign investment contract, under applicable Chilean exchange controls, investors would not be granted access to the Formal Exchange Market for the purpose of converting pesos to U.S. dollars and repatriating from Chile amounts received with respect to deposited shares or shares withdrawn from deposit on surrender of ADSs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying shares and any rights arising therefrom).

The following is a summary of the material provisions of the foreign investment contract. This summary does not purport to be complete and is qualified in its entirety by reference to the foreign investment contract. Under the foreign investment contract, the Central Bank agrees to grant to the depositary, on behalf of ADR holders, and to any investor not residing or domiciled in Chile who withdraws shares upon delivery of ADRs (we refer to such shares as withdrawn shares), access to the Formal Exchange Market to convert pesos to U.S. dollars (and remit such U.S. dollars outside of Chile) in respect of shares represented by ADSs or withdrawn shares, including amounts received as:

cash dividends;

proceeds from the sale in Chile of withdrawn shares (subject to receipt by the Central Bank of a certificate from the holder of the withdrawn shares (or from an institution authorized by the Central Bank) that such holder's residence and domicile are outside Chile and a certificate from a Chilean stock exchange (or from a brokerage or securities firm established in Chile) that such withdrawn shares were sold on a Chilean stock exchange);

proceeds from the sale in Chile of rights to subscribe for additional shares;

proceeds from our liquidation, merger or consolidation; and

other distributions, including without limitation those resulting from any recapitalization as a result of holding shares represented by ADSs or withdrawn shares.

Transferees of withdrawn shares will not be entitled to any of the foregoing rights unless the withdrawn shares are redeposited with the depositary. Investors receiving withdrawn shares in exchange for ADRs will have the right to redeposit such shares in exchange for ADRs, provided that the conditions to redeposit are satisfied.

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The foreign investment contract provides that a person who brings foreign currency into Chile to purchase shares with the benefit of the foreign investment contract must convert the foreign currency into pesos on the same date as the foreign currency is brought into Chile and then has five banking business days within which to invest the currency in shares in order to receive the benefits of the foreign investment contract. If the person decides within that period not to acquire shares, he or she can access the formal exchange market to reacquire dollars, provided that the applicable request is presented to the Central Bank within seven banking business days of the initial conversion into pesos. Shares acquired as described above may be deposited for ADSs and receive the benefits of the foreign investment contract, subject to:

receipt by the Central Bank of a certificate from the depository that such deposit has been effected and that the related ADRs have been issued; and

receipt by the custodian of a declaration from the person making such deposit waiving the benefits of the foreign investment contract with respect to the deposited shares.

Access to the Formal Exchange Market under any of the circumstances described above is not automatic. Such access requires approval of the Central Bank based on a request presented through a banking institution established in Chile. The foreign investment contract provides that if the Central Bank has not acted on the request within seven banking days, the request will be deemed approved.

Under current Chilean law, the foreign investment contract cannot be changed unilaterally by the Central Bank, and there are judicial precedents (which are not binding with respect to future judicial decisions) indicating that the foreign investment contract may not be abrogated by future legislative changes. There can be no assurance, however, that additional Chilean restrictions applicable to the holders of ADRs, the disposition of underlying shares or the repatriation of the proceeds from such disposition could not be imposed in the future, nor can we assess the duration or impact of such restrictions if imposed.

## **TAXATION**

### **Chilean Tax Considerations**

The following discussion is based on certain Chilean income tax laws presently in force, including Ruling No. 324 of January 29, 1990 of the *Servicio de Impuestos Internos*, or the Chilean Internal Revenue Service, and other applicable regulations and rulings. The discussion summarizes the principal Chilean income tax consequences of an investment in ADSs or shares of common stock by an individual who is not domiciled in, or a resident of, Chile or a legal entity that is not organized under the laws of Chile and does not have a permanent establishment located in Chile, which we refer to as a foreign holder. For purposes of Chilean tax law, an individual holder is a resident of Chile if he or she has resided in Chile for more than six consecutive months in one calendar year or for a total of more than six months, whether consecutive or not, in two consecutive tax years. An individual holder is domiciled in Chile if he or she resides in Chile with the purpose of staying in Chile (such purpose to be evidenced by circumstances such as the acceptance of employment within Chile or the relocation of his or her family to Chile). This discussion is not intended as tax advice to any particular investor, which can be rendered only in light of that investor's particular tax situation.

Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign holders, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may be amended only by another statute. In addition, the Chilean tax authorities issue rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean taxes may not be assessed retroactively against taxpayers who act in good faith relying on such rulings and regulations, but Chilean tax



authorities may change rulings and regulations prospectively. There is no general income tax treaty in force between Chile and the United States.

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### ***Cash Dividends and Other Distributions***

Cash dividends paid by us with respect to ADSs or shares of common stock held by a foreign holder will be subject to a 35.0% Chilean withholding tax, which is withheld and paid over by us, which we refer to as the Chilean withholding tax. A credit against the Chilean withholding tax is available based on the level of corporate income tax, or first category tax, actually paid on the taxable income to which the dividend is imputed; however, this credit does not reduce the Chilean withholding tax on a one-for-one basis because it also increases the base on which the Chilean withholding tax is imposed. In addition, distribution of book income in excess of retained taxable income is subject to the Chilean withholding tax, but such distribution is not eligible for the credit. Under Chilean income tax law, for purposes of determining the level of the first category tax paid, dividends generally are assumed to have been paid out of oldest retained taxable profits. The effective rate of withholding tax to be imposed on dividends paid by us will vary depending upon the amount of first category tax paid by us on the earnings to which the dividends are attributed. In our case, the amount paid as first category tax is lower than it would be based on our income because the dividends paid to SAOS are accounted for as a cost to us. Presently, the first category tax rate is 17%. Whether the first category tax is imposed or not, the effective overall combined rate of Chilean taxes imposed with respect to our distributed profits is 35.0%.

The foregoing tax consequences apply to cash dividends paid and dividend distributions made in property, other than shares of common stock. Share dividends are not subject to Chilean taxation.

### ***Capital Gains***

Gain realized on the sale, exchange or other disposition by a foreign holder of ADSs (or ADRs evidencing ADSs) will not be subject to Chilean taxation, provided that such disposition occurs outside Chile or that it is performed under the rules of Title XXIV of the Chilean Securities Market Law, as amended by Law No. 19,601. The deposit and withdrawal of shares of common stock in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on the sale or exchange of shares of common stock (as distinguished from sales or exchanges of ADSs representing such shares of common stock) by a foreign holder will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter) if (1) the foreign holder has held such shares of common stock for less than one year since exchanging ADSs for the shares of common stock, (2) the foreign holder acquired and disposed of the shares of common stock in the ordinary course of its business or as a regular trader of stock or (3) the sale is made to a company in which the foreign holder holds an interest (10.0% or more of the shares in the case of open stock corporations). In all other cases, gain on the disposition of shares of common stock will be subject only to the first category tax levied as a sole tax. However, if it is impossible to determine the taxable capital gain, a 5.0% withholding will be imposed on the total amount to be remitted abroad, without any deductions, as a provisional payment of the total tax due.

The tax basis of shares of common stock received in exchange for ADSs will be the acquisition value of such shares on the date of the exchange. The valuation procedure set forth in the deposit agreement, which values shares of common stock that are being exchanged at the highest price at which they trade on the Santiago Stock Exchange on the date of the exchange, generally will determine the acquisition value for this purpose. Consequently, the conversion of ADSs into shares of common stock and sale of such shares of common stock for the value established under the deposit agreement will not generate a capital gain subject to taxation in Chile.

The distribution and exercise of preemptive rights relating to the shares of common stock will not be subject to Chilean taxation. Amounts received in exchange for the shares or assignment of preemptive rights relating to the shares will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter to the extent described above).



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Law No. 19,738 of June 19, 2001, an amendment to the Chilean Income Tax Law, established an exemption for the payment of income tax by foreign institutional investors such as mutual funds, pension funds and others, that obtain capital gains in the sales through a Chilean stock exchange, a tender offer or any other system authorized by the Chilean Superintendency of Securities and Insurance, of shares of publicly traded corporations that are significantly traded in stock exchanges. The Chilean Internal Revenue Service has not enacted any rule nor issued any ruling about the applicability of this regulation to foreign holders of ADSs.

A foreign institutional investor is an entity that is either:

a fund that makes public offers of its shares in a country whose public debt has been rated investment grade by an international risk classification agency qualified by the Chilean Superintendency of Securities and Insurance;

a fund that is registered with a regulatory entity of a country whose public debt has been rated investment grade by an international risk classification agency qualified by the Chilean Superintendency of Securities and Insurance, provided that the investments in Chile, including securities issued abroad that represent Chilean securities, held by the fund represent less than 30.0% of its share value;

a fund that holds investments in Chile that represent less than 30.0% of its share value, provided that it proves that no more than 10.0% of its share value is directly or indirectly owned by Chilean residents;

a pension fund that is exclusively formed by individuals that receive their pensions on account of capital accumulated in the fund;

a fund regulated by the Foreign Capital Investment Funds Law, Law No. 18,657, in which case all holders of its shares must reside abroad or be qualified as local institutional investors; or

another kind of institutional foreign investor that complies with the regulatory requirements of the prior report of the Chilean Superintendency of Securities and Insurance and the Chilean Internal Revenue Service.

In order to be entitled to the exemption, foreign institutional investors, during the time in which they operate in Chile, must:

be organized abroad and not be domiciled in Chile;

not participate, directly or indirectly, in the control of the issuers of the securities in which it invests and not hold, directly or indirectly, 10.0% or more of such companies' capital or profits;

execute an agreement in writing with a Chilean bank or securities broker in which the intermediary is responsible for the execution of purchase and sale orders and for the verification, at the time of the respective remittance, that such remittances relate to capital gains that are exempt from income tax in Chile or, if they are subject to income tax, that the applicable withholdings have been made; and

register in a special registry with the Chilean Internal Revenue Service.



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Pursuant to an amendment to the Chilean Income Tax Law published on November 7, 2001, Law No. 19,768, the sale or disposition of shares of Chilean public corporations that are significantly traded on stock exchanges is exempted from Chilean taxes on capital gains if the sale or disposition was made:

on a local stock exchange or any other stock exchange authorized by the Chilean Superintendency of Securities and Insurance or in a tender offer process according to Title XXV of the Chilean Securities Market Law, so long as the shares (a) were purchased on a public stock exchange or in a tender offer process pursuant to Title XXV of the Chilean Securities Market Law, (b) are newly issued shares issued in a capital increase of the corporation, or (c) were the result of the exchange of convertible bonds (in which case the conversion price is considered to be the price of the shares). In this case, gains exempted from Chilean taxes shall be calculated using the criteria set forth in the Chilean Income Tax Law; or

within 90 days after the shares would have ceased to be traded in specified volumes on a stock exchange. In such case, the gains exempted from Chilean taxes on capital gains will be up to the average price per share of the last 90 days. Any gains above the average price will be subject to the first category tax.

Capital gains subject to taxation in Chile may be generated in the case where the sale of the shares is made on a day other than the date in which the exchange is recorded. On October 1, 1999, the Chilean Internal Revenue Service issued Ruling No. 3708, allowing Chilean issuers of ADSs to amend the deposit agreements to which they are parties in order to include a clause that states that, in the case that the exchanged shares are sold by the ADSs holders in a Chilean stock exchange, either on the same day in which the exchange is recorded in the shareholders registry of the issuer or within the two prior business days to such date, the acquisition price of such exchanged shares shall be the price registered in the invoice issued by the stock broker that participated in the sale transaction. Consequently, should we include this clause in the deposit agreement, the capital gain that may be generated if the exchange date is different than the date in which the shares received in exchange for ADSs were sold, will not be subject to taxation.

### ***Other Chilean Taxes***

No Chilean inheritance, gift or succession taxes apply to the transfer or disposition of the ADSs by a foreign holder but such taxes generally will apply to the transfer at death or by a gift of shares of common stock by a foreign holder. No Chilean stamp, issue, registration or similar taxes or duties apply to foreign holders of ADSs or shares of common stock.

### **United States Federal Income Tax Considerations**

The following discussion summarizes the principal U.S. federal income tax considerations relevant to an investment in the ADSs or shares of common stock by a holder that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise will be subject to U.S. federal income tax on a net income basis in respect of the ADSs or shares of common stock, who is referred to as a U.S. holder, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase ADSs or shares of common stock. In particular, this discussion is directed only to U.S. holders that will hold ADSs or shares of common stock as capital assets and that have the U.S. dollar as their functional currency, and does not address the tax treatment of U.S. holders that are subject to special tax rules, such as banks, dealers in securities or currencies, regulated investment companies, real estate investment trusts, traders in securities electing to mark to market, financial institutions, insurance companies, tax-exempt entities, holders of 10% or more of our voting shares, certain short-term holders of ADSs or shares of common stock, persons holding ADSs or shares of common stock as a position in a straddle or conversion transaction, or as part of a synthetic security or other integrated financial transaction. Prospective purchasers who are U.S. holders are advised to consult their own tax advisors as to the overall United States federal, state and local tax consequences of their ownership of ADSs and the underlying shares of common stock.



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The statements of United States tax laws set out below are based on the laws in force as of the date of this annual report and may be subject to any changes in United States law occurring after such date, including changes that may have retroactive effect.

### ***ADRs***

In general, U.S. holders of ADRs evidencing ADSs will be treated, for United States federal income tax purposes, as the beneficial owners of the underlying shares of common stock that are represented by those ADSs and evidenced by those ADRs.

### ***Cash Dividends and Other Distributions***

The gross amount of cash dividends paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) with respect to the shares of common stock or ADSs, including the net amount of the Chilean withholding tax withheld on the distribution (after taking into account the credit for the first category tax), will be includable in the gross income of a U.S. holder as foreign source dividend income on the day the dividends are received by the U.S. holder, in the case of shares of common stock, or by the depository, in the case of shares of common stock represented by ADSs, and will not be eligible for the dividends-received deduction allowed to corporations under the Internal Revenue Code of 1986, as currently in force. Dividends paid in Chilean pesos will be includable in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day they are received by the U.S. holder, in the case of shares of common stock, or the depository, in the case of shares of common stock represented by ADSs. U.S. holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any Chilean pesos received that are converted into U.S. dollars on a date subsequent to receipt.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2009 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, (a) a passive foreign investment company, or PFIC, or (b) for dividends paid prior to the 2005 tax year, a foreign personal holding company, or FPHC, or a foreign investment company, or FIC. The ADSs are listed on the NYSE and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC, FPHC or FIC for U.S. federal income tax purposes with respect to our 2004 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC, FPHC or FIC for our 2005 taxable year.

Based on existing guidance, it is not entirely clear whether dividends received with respect to the common stock will be treated as qualified dividends, because the common stock is not itself listed on a U.S. exchange. In addition, the U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or common stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of ADSs and common stock should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

The Chilean withholding tax (after taking into account the credit for the first category tax) will be treated as a foreign income tax that a U.S. holder may elect to deduct in computing its income tax or, subject to generally applicable limitations and conditions under the Internal Revenue



Code, to credit against its U.S.

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federal income tax liability. For purposes of calculating the foreign tax credits, dividends paid on the common stock or ADSs will generally constitute foreign source passive income for U.S. tax purposes. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial. U.S. holders should consult their own advisors concerning the implications of these rules in light of their particular circumstances.

Distributions of additional shares of common stock (or rights to subscribe for shares of common stock) to U.S. holders with respect to the ADSs or shares of common stock that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

A non-U.S. holder, *i.e.*, a holder of shares of common stock or ADSs that is a nonresident alien individual or a foreign corporation generally will not be subject to U.S. federal income or withholding tax on dividends received on shares of common stock or ADSs, unless that income is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States.

## ***Capital Gains***

Gain or loss realized by a U.S. holder on the sale, exchange or other disposition of ADSs or shares of common stock will be subject to U.S. federal income taxation as a capital gain or loss in an amount equal to the difference between the holder's adjusted basis in the ADSs or the shares of common stock and the amount realized on the disposition. The gain or loss generally will be a capital gain or loss. Capital gains realized by an individual U.S. holder are generally subject to a maximum tax rate of 15% with respect to property held for more than one year.

Gains realized by a U.S. holder on a sale or other disposition of ADSs or shares of common stock generally will be treated as U.S. source income. Because a U.S. holder generally may not use a foreign tax credit to reduce its U.S. federal income tax liability in respect of its U.S. source income, in the case of a disposition of shares of common stock (which, unlike a disposition of ADSs, would be taxable in Chile), the U.S. holder generally would not be able to utilize foreign tax credits in respect of any Chilean tax imposed on such a disposition unless such holder has other income from foreign sources, in the appropriate category, for purposes of the foreign tax credit limitation rules. U.S. holders should consult their tax advisors regarding the application of the foreign tax credit limitation rules to their investment in, and disposition of, the ADSs and shares of common stock.

Deposits and withdrawals of shares of common stock by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

A non-U.S. holder of shares of common stock or ADSs will not be subject to U.S. federal income or withholding tax on gain realized on the sale of shares of common stock or ADSs, unless (1) such gain is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States or (2) in the case of gain realized by an individual non-U.S. holder, the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

## ***Backup Withholding and Information Reporting***

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In general, dividends paid to a U.S. holder and proceeds from a disposition of the ADSs or shares of common stock will be subject to information reporting requirements and the payments may be subject to U.S. backup withholding tax if the U.S. holder does not provide a taxpayer identification number or otherwise establish an exemption. Under certain circumstances, such payments made to a non-U.S. holder also may be subject to U.S. information reporting requirements and U.S. backup withholding tax, unless the holder certifies its non-U.S. status or otherwise establishes an exemption.

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The foregoing discussion of Chilean and United States tax considerations is intended only to provide a general description of the principal relevant factors. The discussion is not intended as tax advice to any particular investor, which advice can be rendered only in light of that investor's particular tax situation. Investors should consult their tax advisors about the federal, state, local and foreign tax consequences to them of the purchase, ownership and disposition of ADSs or shares of common stock.

## **DOCUMENTS ON DISPLAY**

The materials included in this annual report on Form 20-F, and exhibits thereto, may be inspected and copied at the Securities and Exchange Commission's public reference room in Washington, D.C. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. The Securities and Exchange Commission maintains a World Wide Web site on the Internet at <http://www.sec.gov> that contains reports and information statements and other information regarding us. The reports and information statements and other information about us can be downloaded from the Securities and Exchange Commission's website.

## **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

### **Introduction**

We are exposed to market risks in our asset liability management portfolio and in our trading portfolio. Our asset liability management portfolio is comprised of our nontrading activities and includes retail and corporate deposits; mortgage bonds; foreign borrowings, consumer, commercial and mortgage loans; and foreign trade transactions. Our trading portfolio is comprised of our trading activities and includes government securities, corporate bonds, foreign exchange positions, forwards on foreign exchange and currency and interest rate swaps.

### **The Risk Process**

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

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

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



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The management of risk is accomplished through a centralized structure. It is conducted by the financial risk department which is fully independent of the trading groups and reports directly to the manager of the planning and research division. The financial risk department oversees our local financial activities as well as those of our international operations. Its responsibilities include:

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

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

establishing policies, procedures and risk limits;

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

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

the verification of compliance with the board's established risk tolerance levels and limits and identification of any policy exceptions.

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

applying new measurement methods to existing products.

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

## **Market Risk Exposures**

Market risk refers to potential losses arising from unfavorable market movements in interest rates or foreign exchange rates, as well as the correlation among these factors and their volatility. We are exposed to the material market risks described below because of the financial positions we maintain. The following section quantifies the potential impact of these risks.

### ***Interest rate risk***

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

**Table of Contents****Currency risk**

We are exposed to currency risk because of differences between the asset and liability positions that we maintain in each currency, or currency mismatches. We maintain mismatches in local currency against the U.S. dollar and, to a lesser extent, against the euro and the Japanese yen. Other mismatches are not significant.

At December 31, 2004, our consolidated foreign currency-denominated assets and liabilities were denominated principally in U.S. dollars:

	At December 31, 2004		
	Assets	Liabilities	Net
	(in millions of constant Ch\$ as of December 31, 2004)		
U.S. dollar(1)	Ch\$ 2,206,156	Ch\$ (2,171,886)	Ch\$ 34,270
Euro	28,368	(27,218)	1,150
Pound sterling	1,621	(1,233)	388
Swiss franc	395	(154)	241
Canadian dollar	310	(103)	207
Japanese yen	5,639	(5,537)	102
Other	420	(237)	183
<b>Total</b>	<b>Ch\$ 2,242,909</b>	<b>Ch\$ (2,206,368)</b>	<b>Ch\$ 36,541</b>

(1) Includes Ch\$264,809 million in assets and Ch\$250 million in liabilities denominated in foreign currencies and payable in Chilean pesos indexed to the U.S. dollar exchange rate.

As is explained below, we use two models to measure our asset liability management's portfolio's exposure to interest rate risk: an interest rate gap model and a duration gap model.

**Inflation risk**

We are exposed to inflation risk because of differences between the asset and liability positions that we maintain in UF (inflation indexed) and in peso (non inflation indexed). We have generally maintained more peso-denominated liabilities than peso-denominated assets and more UF-denominated assets than UF-denominated liabilities. We believe that inflation risk is not significant, as inflation has steadily declined from 18.7% in 1991 to 2.4% in 2004.



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

The composition of our assets, liabilities and shareholders equity at December 31, 2004 by currency and term was as follows:

At December 31, 2004					
	Ch\$	UF	Foreign Currency(1)	Total	Percentage
(in millions of constant Ch\$ as of December 31, 2004, except for percentages)					
<b>Assets(2):</b>					
Cash and due from banks	Ch\$ 705,558		Ch\$ 185,058	Ch\$ 890,616	9.0%
Other assets(1)					
Less than one year	2,070,939	Ch\$ 1,461,401	1,549,233	5,081,573	51.3
From one to three years	409,220	729,365	146,057	1,284,642	13.0
More than three years	128,526	1,941,477	59,966	2,129,969	21.5
<b>Total financial assets</b>	<b>Ch\$ 3,314,243</b>	<b>Ch\$ 4,132,243</b>	<b>Ch\$ 1,940,314</b>	<b>Ch\$ 9,386,800</b>	<b>94.8%</b>
Other	229,170	1,120	303,714	534,004	5.4
Bank premises and equipment	131,978		692	132,670	1.3
Investment in other companies	5,412			5,412	0.1
Allowances for loan losses	(151,931)		(1,811)	(153,742)	(1.6)
<b>Total assets</b>	<b>Ch\$ 3,528,872</b>	<b>Ch\$ 4,133,363</b>	<b>Ch\$ 2,242,909</b>	<b>Ch\$ 9,905,144</b>	<b>100.0%</b>
Percentage of total financial assets by currency	35.31%	44.02%	20.67%	100.00%	
<b>Liabilities and shareholders equity(2):</b>					
Non-interest bearing demand deposits	Ch\$ 1,603,663	Ch\$ 50,609	Ch\$ 467,773	Ch\$ 2,122,045	21.4%
Other liabilities(1)					
Less than one year	2,488,694	966,461	1,580,948	5,036,103	50.8
From one to three years	71,810	485,614	58,043	615,467	6.2
More than three years	17,201	888,317	926	906,444	9.2
<b>Total financial liabilities</b>	<b>Ch\$ 4,181,368</b>	<b>Ch\$ 2,391,001</b>	<b>Ch\$ 2,107,690</b>	<b>Ch\$ 8,680,059</b>	<b>87.6%</b>
Other	446,401	5,473	98,678	550,552	5.5
Shareholders equity	521,905			521,905	5.3
2004 net income	152,628			152,628	1.6
<b>Total liabilities and shareholders equity</b>	<b>Ch\$ 5,302,302</b>	<b>Ch\$ 2,396,474</b>	<b>Ch\$ 2,206,368</b>	<b>Ch\$ 9,905,144</b>	<b>100.0%</b>
Percentage of total financial liabilities and shareholders equity by currency	48.17%	27.55%	24.28%	100.00%	

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Asset/liability gap	Ch\$ (1,773,430)	Ch\$ 1,736,889	Ch\$ 36,541
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(1) Includes assets and liabilities payable in Chilean pesos that are indexed according to the U.S. dollar exchange rate.

(2) Includes forward contracts.

### **Market Risk: Models and Measurement**

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

### ***Asset Liability Portfolio***

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

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liability portfolio is managed using the Value at Risk, or VaR, methodology. See Market Risk: Value at Risk (VaR).

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

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

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

To compute our exposure to repricing risk for the next 12 months, we prepare, on a monthly basis, gap profiles for inflation indexed portfolios, non-inflation indexed portfolios and for dollar portfolios. To compute the different gap profiles we use the following tenor buckets:

monthly, from one month to three months; and

quarterly, from 90 days to a year.

Next, we calculate the potential impact on net interest revenue over the next twelve months based on a parallel shift in yield curves for non-inflation indexed (parallel shift of 120 basis points), inflation (parallel shift of 170 basis points for one and two months, and 150 basis points for three months up to a year) and dollar positions (parallel shift of 50 basis points). To limit repricing risk, the finance and international committee has established that total potential losses resulting from the parallel shift cannot exceed a certain amount of net interest revenue. The following tables show the average, low and high repricing risk for the years 2003 and 2004:

<b>Repricing Risk 2003</b>				
	<b>Low</b>	<b>High</b>	<b>Average</b>	<b>December 31, 2003</b>
(in millions of nominal Ch\$)				
Pesos position	Ch\$ 1,263	Ch\$ 8,008	Ch\$ 4,117	Ch\$ 7,515
UF position	5,345	13,970	8,705	6,306
Foreign currency position	Ch\$ 96	Ch\$ 3,148	Ch\$ 1,466	Ch\$ 342

**Repricing Risk 2004**

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	<u>Low</u>	<u>High</u>	<u>Average</u>	<u>December 31, 2004</u>
	(in millions of nominal Ch\$)			
Pesos position	Ch\$ 438	Ch\$ 6,997	Ch\$ 3,841	Ch\$ 2,470
UF position	4,308	8,132	6,715	5,710
Foreign currency position	Ch\$ 52	Ch\$ 1,058	Ch\$ 616	Ch\$ 1,058

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We finance our positive one-year UF gap with our negative one-year gap in pesos and, to a lesser extent, the negative one-year gap in foreign currency. The risk of this strategy, which we refer to as net repricing risk, is calculated by subtracting repricing risks for the peso and foreign currency positions from the UF repricing risk. Since interest rates were expected to increase during 2004, we increased the average maturity of its peso liabilities. As a result, net average repricing risk decreased, from Ch\$3,122 million in 2003 to Ch\$2,258 million in 2004.

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

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

The following tables show the average low and high economic risk exposure as a percentage of capital for the years 2003 and 2004. The last columns show our interest rate sensitivity as of December 31, 2003 and 2004.

<b>Economic Risks as a Percentage of Capital 2003</b>				
	<b>Low</b>	<b>High</b>	<b>Average</b>	<b>December 2003</b>
Pesos position	0.27%	0.97%	0.48%	0.70%
UF position	0.94	2.46	1.74	2.03
Foreign currency position	0.02%	0.50%	0.22%	0.02%

<b>Economic Risks as a Percentage of Capital 2004</b>				
	<b>Low</b>	<b>High</b>	<b>Average</b>	<b>December 2004</b>
Pesos position	0.21%	2.95%	1.06%	1.62%
UF position	0.63	2.99	1.72	2.99
Foreign currency position	0.01%	0.32%	0.13%	0.19%

The average economic risk for the peso position increased from 0.48% in 2003 to 1.06% in 2004 due to a greater volatility for the yield curve in peso, which was anticipating an increase in interest rate by the Central Bank. Average economic risk for the UF position remained basically constant, and average economic risk for the foreign currency position decreased from 0.22% in 2003 to 0.13% in 2004, because we have maintained our policy to hedge our exposure to interest rates denominated in foreign currencies. Overall, total average economic risk increased from 2.44% in 2003 to 2.91% in 2004 as a result of the larger economic risk for the peso position.

*Central Bank Gap Requirement.* The Central Bank mandates that an interest rate risk limit not exceed 8% of a bank's total capital for commercial banks. The calculation is based on a table per time period compounded by fixed changes in interest rates (100 basis points, or 1%, for the short term and 75 basis points, or 0.75%, for the longer terms) and fixed sensitivity factors for the different time buckets (from 30 days to 20 years). During 2004, this indicator ranged from 4.06% to 6.32%.

*The Trading Portfolio*

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

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

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

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

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

In addition to the total VaR, VaRs estimated by market parameters and asset class are also computed.

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

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

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

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

our foreign exchange portfolio;

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

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

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



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During 2004, we changed our VaR methodology in order to take into consideration correlations effects. The following tables show the median, low and high daily VaR for the years 2003 and 2004, along with VaR at December 31, 2003 and 2004.

	Period Ended December 31, 2003			At December 31, 2003
	Median VaR	Minimum VaR	Maximum VaR	VaR
	(in millions of nominal Ch\$)			
Foreign exchange	Ch\$ 56		Ch\$ 281	Ch\$157
Interest rate risk	971	Ch\$ 278	1,617	486
Less: portfolio diversification	(43)	79	(281)	(218)
<b>Total VaR</b>	<b>Ch\$ 984</b>	<b>Ch\$ 357</b>	<b>Ch\$ 1,617</b>	<b>Ch\$425</b>
	Period Ended December 31, 2004			At December 31, 2004
	Median VaR	Minimum VaR	Maximum VaR	VaR
	(in millions of nominal Ch\$)			
Foreign exchange	Ch\$ 141	Ch\$ 0	Ch\$ 539	Ch\$100
Interest rate risk	314	154	374	323
Less: portfolio diversification	(90)	(3)	(263)	(172)
<b>Total VaR</b>	<b>Ch\$ 365</b>	<b>Ch\$ 151</b>	<b>Ch\$ 650</b>	<b>Ch\$251</b>

The chart below compares the VaR estimates with no-action-profit and loss, or NAPL, over the last 12 months ended on December 2004. NAPL describes the hypothetical profit and loss on the position that would have been incurred if the previous day's closing position had been kept for the next 24 hours and then revalued.

In the chart below, the bars represent the daily NAPL whereas the line below the bars represents the daily VaR. We check the VaR model on an ongoing basis to assess its accuracy. During 2004, the NAPL exceeded the calculated VaR on five occasions, which is within the model expectations.

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

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

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

*Present Value Basis Point (PVBP).* The PVBP is the change in an instrument's value associated with the change in the reference yield of 1 basis point, or 0.01%. The PVBP risk limit has been approved by the finance and international committee. As of December 2004, the PVBP for the peso portfolio was \$3 million, for the UF portfolio \$162 million, and the USD portfolio \$14 million. As of December 2003, the PVBP for the peso portfolio was Ch\$73 million, Ch\$200 million for the UF portfolio and Ch\$20 million for the USD portfolio.

*Basis Risk.* Basis risk is the possibility of loss from imperfectly matched risk, offsetting positions in two related but not identical markets. We control our exposure to the basis risk between our foreign bonds portfolio and the interest rate swaps used to hedge them. As of December 2004, one basis point of basis risk was worth \$20 million. As of December 2003, one basis point of basis risk was worth Ch\$12 million.

*Position Limit for Fixed Income Portfolio and Currency Mismatch.* To limit our exposure to interest rate risk, especially in periods of low volatility, we limit the size of our fixed income portfolio.

The finance and international committee has determined that our net foreign currency mismatches cannot exceed a certain percentage of our capital. This percentage is lower than the net foreign currency mismatches limit established by the Central Bank, as described below.

Central Bank regulations do not permit the difference between a bank's assets and liabilities denominated in foreign currencies to exceed 20% of a bank's paid-in capital and reserves (on an unconsolidated basis). At December 31, 2004, our foreign exchange gap was Ch\$36,541 million, equivalent to 7.0% of our paid-in capital and reserves. This gap includes assets and liabilities denominated in U.S. dollars as well as those denominated in pesos and adjusted by the variation of the U.S. dollar/Chilean peso exchange rate, and off balance sheet items such as interest rate swaps and currency swaps. At December 2003, the foreign exchange gap represented 3.13% of our paid-in capital and reserves.

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

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

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

The bulk of foreign exchange trading that we undertake is intended to hedge the exposure of our customers to the prevailing rate of exchange. It is our policy to make foreign currency-denominated loans only to customers whose activities generate foreign currency-denominated cash flow or that are indexed to a foreign currency, or if the market value of a customer's assets is indexed to the rate of exchange. At December 31, 2004, approximately 15.1% of our consolidated total loan portfolio was denominated in foreign currencies.

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

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

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

The following table presents notional amounts of our derivatives contracts at December 31, 2004:

	<b>At December 31, 2004</b>
	<b>Notional Amount</b>
	<b>(in millions of constant Ch\$ as of December 31, 2004)</b>
Exchange rate forwards denominated in foreign currency	Ch\$60,052
Foreign currency futures (purchased)	1,422,715
Foreign currency futures (sold)	1,199,890
Chilean currency futures (purchased)	240,707
Chilean currency futures (sold)	106,315
Interest rate swaps	731,231
	<hr/>
Purchase option	3,359
	<hr/>
<b>Total</b>	<b>Ch\$3,764,269</b>

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The following table presents foreign currency exchange rate risk instruments as of December 31, 2004, in notional amounts, and weighted average exchange rates by expected (contractual) maturity dates, for the next five years:

	As of December 31, 2004					Total
	2005	2006	2007	2008	2009	
(in millions of constant Ch\$ as of December 31, 2004)						
<b>Exchange rate forwards denominated in foreign currency</b>						
<b>Purchased:</b>						
Pay U.S. dollars/receive Japanese yen	Ch\$ 2,441					Ch\$ 2,441
Average contractual exchange rate(1)	5.27					
Pay U.S. dollars/receive Euros	14,485					14,485
Average contractual exchange rate(1)	729.87					
Pay U.S. dollars/receive Pound sterling	162					162
Average contractual exchange rate(1)	1,040.28					
Pay U.S. dollars/receive Switzerland franc	475					475
Average contractual exchange rate(1)	485.99					
Pay U.S. dollars/receive Canadian dollars	128					128
Average contractual exchange rate(1)	460.80					
<b>Sold:</b>						
Pay Japanese yen/receive U.S. dollars	15,321					15,321
Average contractual exchange rate(1)	5.33					
Pay Canadian dollars/receive U.S. dollars	1,288					1,288
Average contractual exchange rate(1)	457.11					
Pay Euros/receive U.S. dollars	22,998	Ch\$ 80				23,078
Average contractual exchange rate(1)	732.35	757.10				
Pay Pound sterling/receive U.S. dollars	2,674					2,674
Average contractual exchange rate(1)	1,019.42					
<b>Total</b>	<b>Ch\$ 59,972</b>	<b>Ch\$ 80</b>				<b>Ch\$ 60,052</b>
<b>Foreign currency futures</b>						
<b>Purchased:</b>						
Pay Chilean pesos/receive U.S. dollars	943,703	5,598	Ch\$ 5,598			954,899
Average contractual exchange rate(1)	596.72	638.59	622.15			
Pay UF/receive U.S. dollars	451,029	4,647	5,598			461,274
Average contractual exchange rate(1)	613.20	592.87	616.28			
Pay Chilean pesos/receive Euros	2,742	80				2,822
Average contractual exchange rate(1)	759.97	757.10				
Pay Chilean pesos/receive Pound sterling	2,547					2,547
Average contractual exchange rate(1)	1,073.27					
Pay Chilean pesos/receive Canadian dollars	1,173					1,173
Average contractual exchange rate(1)	461.18					
<b>Total</b>	<b>Ch\$ 1,401,194</b>	<b>Ch\$ 10,325</b>	<b>Ch\$ 11,196</b>			<b>Ch\$ 1,422,715</b>
<b>Sold:</b>						
Pay U.S. dollars/receive Chilean pesos	960,096	5,598	11,197			976,891
Average contractual exchange rate(1)	589.48	640.00	617.50			
Pay U.S. dollars/receive UF	220,166					220,166
Average contractual exchange rate(1)	609.85					
Pay Euros/receive Chilean pesos	2,352					2,352

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Average contractual exchange rate(1)	760.48					
Pay Switzerland franc/receive Chilean pesos	481					481
Average contractual exchange rate(1)	492.36					
<b>Total</b>	<b>Ch\$ 1,183,095</b>	<b>Ch\$ 5,598</b>	<b>Ch\$ 11,197</b>			<b>Ch\$ 1,199,890</b>
<b>Chilean currency futures</b>						
<b>Purchased:</b>						
Pay UF/receive Chilean pesos	157,585	83,122				240,707
Average contractual exchange rate(1)	16,948.13	17,317.05				
<b>Total</b>	<b>Ch\$ 157,585</b>	<b>Ch\$ 83,122</b>				<b>Ch\$ 240,707</b>
<b>Sold:</b>						
Pay Chilean pesos/receive UF	88,843	17,472				106,315
Average contractual exchange rate(1)	17,422.88	17,472.00				
<b>Total</b>	<b>Ch\$ 88,843</b>	<b>Ch\$ 17,472</b>				<b>Ch\$ 106,315</b>

(1) The average contractual exchange rate represents the amount of specified currency equal to U.S.\$1.00.

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### **Foreign Operations**

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

### **Credit Risk for Derivatives**

We make use of derivative transactions in the course of business to meet the financial needs of our customers, to generate revenues through our trading activities, and to manage our exposure to fluctuations in interest and currency rates. We use the same credit risk management procedures when entering into derivative transactions as we do for traditional lending products. Our primary counter-parties in derivative transactions are investment-grade financial institutions.

In terms of outstanding exposure to credit risk, the true measure of risk from derivative transactions is the mark-to-market value of the contracts at a point in time (*i.e.*, the cost to replace the contract at the current market rates should the counter-party default prior to the settlement). For most derivative transactions, the notional principal amount does not change hands; it is simply an amount that is used as a reference upon which to calculate payments. While notional principal is the most commonly used volume measure in the derivative and foreign exchange markets, it is not a measure of credit risk. As of December 31, 2004, the credit exposure of our foreign exchange forwards was Ch\$71,589 million.

### **Item 12. Description of Securities Other than Equity Securities**

Not Applicable.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**Item 15. Controls and Procedures**

We carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2004. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures as of December 31, 2004 were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act, as amended, is recorded, processed, summarized and reported as and when required.

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There has been no change in our internal control over financial reporting during 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16. [Reserved]****Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that Mr. Jorge Awad M., a member of our audit committee, qualifies as an audit committee financial expert and as independent within the meaning of this Item 16A.

**Item 16B. Code of Ethics**

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions, as well as to our directors and other employees without exception. Our code of ethics is filed as an exhibit to this Form 20-F.

**Item 16C. Principal Accountant Fees and Services****Audit and Non-Audit Fees**

The following table sets forth the fees billed to us by our independent auditors, Ernst & Young Limitada, during the fiscal years ended December 31, 2003 and 2004:

	Year ended December 31,	
	2003	2004
	(in millions of constant Ch\$ as of December 31, 2004)	
Audit fees	Ch\$ 401	Ch\$ 381
Audit-related fees	105	
Tax fees	6	
Other fees	23	10
<b>Total fees</b>	<b>Ch\$ 535</b>	<b>Ch\$ 391</b>

Audit fees in the above table are the aggregate fees billed by Ernst & Young Limitada in connection with the audit of our annual financial statements. This includes: (i) reviews and advisory services related to filings with the LSE and the Securities and Exchange Commission, (ii) the statutory audit required by local regulations, (iii) the audit of the New York and Miami branches and (iv) the audit of the consolidated financial statements required by Item 18 of form 20-F.



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Audit-related fees for 2003 in the above table are the aggregate fees billed by Ernst & Young Limitada for: (i) control and attestation reports related to a limited review of internal controls for ten of our branches and (ii) support related to financial accounting and reporting standards and certification pursuant to Section 404 of the Sarbanes-Oxley Act.

Tax fees in the above table are fees billed by Ernst & Young Limitada for tax compliance services, tax consultations and tax planning services.

Other fees in the above table are fees billed by Ernst & Young Limitada primarily related to training services, advisory services in the form of agreed-upon procedures related to computer access controls and compensation research studies for year 2003 and 2004.

**Table of Contents****Pre-Approval Policies and Procedures**

Our audit committee approves all audit, audit-related services, tax services and other services provided by Ernst & Young Limitada. Any services provided by Ernst & Young Limitada that are not specifically included within the scope of the audit must be pre-approved by the audit committee prior to any engagement. These policies and procedures have been in place since May 2003.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not Applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets forth certain information concerning purchases by us of our previously issued shares during the fiscal year ended December 31, 2004:

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Average Price Paid per Share  (in millions of constant Ch\$ as of December 31, 2004)</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased under the Plans or Programs</b>
January (1/1/04 - 1/31/04)				
February (2/1/04 - 2/29/04)				
March (3/1/04 - 3/31/04)				
April (4/1/04 - 4/30/04)	1,701,994,590	Ch\$ 31	1,701,994,590	
May (5/1/04 - 5/31/04)				
June (6/1/04 - 6/30/04)				
July (7/1/04 - 7/31/04)				
August (8/1/04 - 8/31/04)				
September (9/1/04 - 9/30/04)				
October (10/1/04 - 10/31/04)				
November (11/1/04 - 11/30/04)				
December (12/1/04 - 12/31/04)				
<b>Total</b>	<b>1,701,994,590</b>	<b>Ch\$ 52,761,832,290</b>	<b>1,701,994,590</b>	

- (1) On March 20, 2003, our shareholders approved a share repurchase program which was authorized by the Central Bank on June 2, 2003. The program began on April 26, 2004 and expires 24 months from that date. Under the terms of the program, the maximum percentage of shares repurchased cannot exceed the equivalent of 3% of our paid-in capital.

For more information, see Item 4. Information on the Company Business Overview Share Repurchase Program.

**PART III**

**Item 17. Financial Statements**

Our financial statements have been prepared in accordance with Item 18 hereof.

**Item 18. Financial Statements**

Our audited consolidated financial statements are included in this annual report beginning at page F-1.

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**Item 19. Exhibits**

**LIST OF EXHIBITS**

<b><u>Exhibit No.</u></b>	<b><u>Exhibit</u></b>
1.1	<i>Estatutos</i> of Banco de Chile, which serve as our articles of incorporation and bylaws, together with an English translation (filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2001 and incorporated herein by reference).
2.1	Form of Deposit agreement among Banco de Chile, JPMorgan Chase Bank as depositary, and the holders from time to time of ADSs (incorporated by reference to our registration statement on Form F-4 (File No. 333-14020) filed on October 18, 2001).
2.2	Form of Foreign Investment Contract among Banco de A. Edwards, Citibank, N.A. and the Central Bank of Chile relating to the foreign exchange treatment of an investment in ADSs, together with an English translation thereof (incorporated by reference to Banco de A. Edwards' registration statement on Form F-1 (Registration No. 33-97594) filed on September 29, 1995).
2.3	Amendment to Foreign Investment Contract among Banco de Chile (as successor to Banco de A. Edwards), Morgan Guaranty Trust Company of New York and the Central Bank of Chile, dated January 2, 2002, together with an English translation thereof (filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2001 and incorporated herein by reference).
8.1	List of subsidiaries.
11.1	Code of ethics (English translation).
12.1	Certification under Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification under Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification under Section 906 of the Sarbanes-Oxley Act of 2002.

Omitted from the exhibits filed with this annual report are certain instruments and agreements with respect to our long-term debt, none of which authorizes securities in a total amount that exceeds 10% of our total assets. We hereby agree to furnish to the SEC copies of any such omitted instruments or agreements as the SEC requests.

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**SIGNATURE**

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

BANCO DE CHILE

By /s/ Pablo Granifo  
Name: Pablo Granifo  
Title: Chief Executive Officer

Date: June 24, 2005

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

Application of Constant Chilean Pesos

The December 31, 2002 and 2003 consolidated financial statements have been restated for general price-level changes and expressed in constant Chilean pesos of December 31, 2004 purchasing power.

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Banco de Chile and Subsidiaries.:

We have audited the accompanying consolidated balance sheets of Banco de Chile and subsidiaries (the Bank ) as of December 31, 2003 and 2004 and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco de Chile and subsidiaries at December 31, 2003 and 2004 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in Chile and regulations issued by the Chilean Superintendency of Banks and Financial Institutions, which differ in certain respect from U.S. generally accepted accounting principles (see Note 28 to the consolidated financial statements).

ERNST & YOUNG LIMITADA

Santiago, Chile, January 31, 2005

(except for Note 28 for which the date is June 3, 2005)

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Restated for general price-level changes and expressed in millions of constant

Chilean pesos as of December 31, 2004 and thousands of U.S. dollars)

	NOTE	As of December 31,		
		2003	2004	2004
		MCh\$	MCh\$	ThUS\$
(Note 1 (q))				
<b>ASSETS</b>				
<b>CASH AND DUE FROM BANKS</b>				
	3			
Non-interest bearing		660,180	539,637	963,930
Interbank deposits-interest bearing		218,075	350,979	626,939
Total cash and due from banks		<b>878,255</b>	<b>890,616</b>	<b>1,590,869</b>
<b>FINANCIAL INVESTMENTS</b>				
	4			
Government securities		1,035,505	913,656	1,632,024
Investments purchased under agreements to resell		30,402	26,310	46,996
Other financial investments		469,944	320,125	571,825
Investment collateral under agreements to repurchase		428,381	347,182	620,156
Total financial investments		<b>1,964,232</b>	<b>1,607,273</b>	<b>2,871,001</b>
<b>LOANS, NET</b>				
	5			
Commercial loans		2,708,178	2,867,288	5,121,712
Consumer loans		603,402	691,851	1,235,823
Mortgage loans		1,156,231	819,882	1,464,520
Foreign trade loans		674,737	599,051	1,070,059
Interbank loans		13,554	15,198	27,148
Leasing contracts	6	275,680	343,853	614,210
Other outstanding loans		452,018	936,202	1,672,297
Past due loans		108,141	84,685	151,269
Contingent loans		419,852	530,901	948,325
Allowance for loan losses	7	(183,938)	(153,742)	(274,623)
Total loans, net		<b>6,227,855</b>	<b>6,735,169</b>	<b>12,030,740</b>
<b>OTHER ASSETS</b>				
Bank premises and equipment, net	8	130,949	132,670	236,983



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Investments in other companies	9	5,428	5,412	9,667
Assets received in lieu of payment, net		16,018	16,130	28,812
Other	10 (a)	258,413	261,933	467,880
		<u>          </u>	<u>          </u>	<u>          </u>
Total other assets		<b>410,808</b>	<b>416,145</b>	<b>743,342</b>
		<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>		<b>9,481,150</b>	<b>9,649,203</b>	<b>17,235,952</b>
		<u>          </u>	<u>          </u>	<u>          </u>

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

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Restated for general price-level changes and expressed in millions of constant

Chilean pesos as of December 31, 2004 and thousands of U.S. dollars)

	NOTE	As of December 31,		
		2003	2004	2004
		MCh\$	MCh\$	ThUS\$ (Note 1 (q))
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
<b>DEPOSITS</b>				
Non-interest bearing				
Current accounts		1,258,574	1,424,569	2,544,646
Bankers drafts and other deposits		680,037	697,476	1,245,871
		<u>1,938,611</u>	<u>2,122,045</u>	<u>3,790,517</u>
Total non-interest bearing				
Interest bearing				
Savings accounts and time deposits		3,508,098	3,663,682	6,544,276
		<u>5,446,709</u>	<u>5,785,727</u>	<u>10,334,793</u>
Total deposits				
<b>OTHER INTEREST BEARING LIABILITIES</b>				
	11			
Central Bank credit lines for renegotiations of loans		3,049	1,930	3,447
Other Central Bank borrowings		25,529	107,643	192,278
		<u>28,578</u>	<u>109,573</u>	<u>195,725</u>
Total Central Bank borrowings				
Investments sold under agreements to repurchase		437,410	349,086	623,557
Mortgage finance bonds		1,039,813	788,888	1,409,156
Bonds		3,205	181,515	324,232
Subordinated bonds		277,977	266,304	475,687
Borrowings from domestic financial institutions		51,129	26,399	47,155
Foreign borrowings		735,918	595,548	1,063,802
Other obligations		61,090	44,847	80,108
		<u>2,635,120</u>	<u>2,362,160</u>	<u>4,219,422</u>
Total other interest bearing liabilities				
<b>OTHER LIABILITIES</b>				
Contingent liabilities	10 (c)	419,879	532,172	950,596
Other	10 (b)	266,369	294,610	526,250
Minority interest		5	1	2
		<u>686,253</u>	<u>826,783</u>	<u>1,476,848</u>
Total other liabilities				

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Commitments and contingencies	22			
<b>SHAREHOLDERS EQUITY</b>	15			
Capital and reserves		579,251	521,905	932,256
Net Income for the year		133,817	152,628	272,633
Total Shareholders equity		<b>713,068</b>	<b>674,533</b>	<b>1,204,889</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>		<b>9,481,150</b>	<b>9,649,203</b>	<b>17,235,952</b>

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

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## BANCO DE CHILE AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Restated for general price-level changes and expressed in millions of constant

Chilean pesos as of December 31, 2004 and thousands of U.S. dollars)

	NOTE	Years ended December 31,			
		2002	2003	2004	2004
		MCh\$	MCh\$	MCh\$	ThUS\$
(Note 1 (q))					
<b>INTEREST REVENUE AND EXPENSE</b>					
Interest revenue		714,018	439,422	543,372	970,602
Interest expense		(333,472)	(209,340)	(214,900)	(383,867)
Net interest revenue		<b>380,546</b>	<b>230,082</b>	<b>328,472</b>	<b>586,735</b>
<b>PROVISION FOR LOAN LOSSES</b>	7	<b>(104,192)</b>	<b>(61,612)</b>	<b>(73,512)</b>	<b>(131,311)</b>
<b>FEES AND INCOME FROM SERVICES</b>	17				
Income from fees and other services		108,247	140,518	166,704	297,776
Other services expenses		(29,514)	(42,267)	(39,862)	(71,204)
Total fees and income from services, net		<b>78,733</b>	<b>98,251</b>	<b>126,842</b>	<b>226,572</b>
<b>OTHER OPERATING INCOME (LOSS)</b>					
Gains from trading activities		24,071	25,688	20,280	36,225
Losses from trading activities		(22,912)	(20,225)	(23,431)	(41,854)
Foreign exchange transactions, net		(32,780)	93,338	17,660	31,545
Total other operating income (loss), net		<b>(31,621)</b>	<b>98,801</b>	<b>14,509</b>	<b>25,916</b>
<b>OTHER INCOME AND EXPENSES</b>					
Loan loss recoveries	19	12,334	26,026	33,736	60,261
Non-operating income	17	6,135	5,429	4,821	8,612
Non-operating expenses	17	(20,920)	(15,963)	(16,558)	(29,576)
Equity participation in net income (loss) in investments in other companies	9	(1,004)	(1,251)	436	779
Minority interest		(1)	(2)	(1)	(2)
Total other income and expenses		<b>(3,456)</b>	<b>14,239</b>	<b>22,434</b>	<b>40,074</b>
<b>OPERATING EXPENSES</b>					

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Personnel salaries and expenses		(138,829)	(128,329)	(136,599)	(244,001)
Administrative and other expenses		(95,243)	(81,847)	(87,726)	(156,701)
Depreciation and amortization		(22,708)	(17,381)	(15,977)	(28,539)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total operating expenses		<b>(256,780)</b>	<b>(227,557)</b>	<b>(240,302)</b>	<b>(429,241)</b>
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET LOSS FROM PRICE-LEVEL RESTATEMENT</b>	1 (b)	<b>(9,934)</b>	<b>(4,137)</b>	<b>(7,466)</b>	<b>(13,336)</b>
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>INCOME BEFORE INCOME TAXES</b>		<b>53,296</b>	<b>148,067</b>	<b>170,977</b>	<b>305,409</b>
<b>INCOME TAXES</b>	21	<b>1,194</b>	<b>(14,250)</b>	<b>(18,349)</b>	<b>(32,776)</b>
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET INCOME</b>		<b>54,490</b>	<b>133,817</b>	<b>152,628</b>	<b>272,633</b>
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Restated for general price-level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004 and thousands of U.S. dollars)**

	Years ended December 31,			
	2002	2003	2004	2004
	MCh\$	MCh\$	MCh\$ (Note 1 (n))	ThUS\$ (Note 1 (q))
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	54,490	133,817	152,628	272,633
Items that do not represent cash flows:				
Depreciation and amortization	22,708	17,381	15,977	28,539
Provisions for loan losses	104,192	61,612	73,512	131,311
Provisions for assets received in lieu of payment	2,322	1,505	889	1,588
Net change in trading investments	202,000	(422,642)	317,956	567,951
Equity participation in net (income) loss in investments in other companies	1,005	1,250	(436)	(779)
Net (gain) loss on sales of assets received in lieu of payment	(3,035)	(4,284)	(5,491)	(9,808)
Net gain on sales of bank premises and equipment	(363)	(451)	(217)	(388)
Net loss from price-level restatement	9,934	4,137	7,466	13,336
Minority interest	1	2	1	2
Other charges not representing cash flows	39,443	1,317	9,247	16,518
Net change in interest accruals	162	89,271	3,272	5,845
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>432,859</b>	<b>(117,085)</b>	<b>574,804</b>	<b>1,026,748</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net (increase) decrease in loans	(152,143)	(122,823)	(501,515)	(895,833)
Net decrease in investments purchased under agreements to resell	18,384	2,591	3,356	5,995
Purchases of bank premises and equipment	(12,420)	(6,975)	(12,310)	(21,989)
Proceeds from sale of bank premises and equipment	1,338	3,553	1,346	2,404
Investments in other companies	(670)	(2,339)	(292)	(522)
Sale of investments in other companies			12	21
Dividends received from investments in other companies	270	559	733	1,309
Proceeds from sale of assets received in lieu of payment	25,727	20,649	16,712	29,852
Net changes in other assets and liabilities	(139,848)	(65,736)	(150,710)	(269,207)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(259,362)</b>	<b>(170,521)</b>	<b>(642,668)</b>	<b>(1,147,970)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net increase in current accounts	166,841	159,586	196,694	351,346
Net increase (decrease) in savings accounts and time deposits	(485,228)	(72,060)	228,955	408,972
Net increase in bankers drafts and other deposits	65,040	97,295	33,679	60,159

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Net increase (decrease) in investments sold under agreements to repurchase	29,803	153,851	(77,542)	(138,510)
Increase in mortgage finance bonds	127,161	312,450	134,049	239,446
Repayment of mortgage finance bonds	(195,791)	(338,547)	(318,632)	(569,159)
Proceeds from bond issues	11,034		174,321	311,382
Repayments of bond issues	(11,031)	(9,334)	(9,963)	(17,796)
Net increase (decrease) in short-term borrowings	72,012	135,268	116,249	207,651
Proceeds from issuance of long-term borrowings	632,283	411,186	234,657	419,158
Repayment of long-term borrowings	(581,100)	(322,378)	(430,510)	(769,001)
Repurchase of shares			(52,762)	(94,247)
Dividends paid	(100,490)	(53,949)	(130,550)	(233,196)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(269,466)</b>	<b>473,368</b>	<b>98,645</b>	<b>176,205</b>
<b>EFFECT OF PRICE-LEVEL RESTATEMENT ON CASH AND DUE FROM BANKS</b>	<b>(26,755)</b>	<b>(7,774)</b>	<b>(18,420)</b>	<b>(32,903)</b>
<b>NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS</b>	<b>(122,724)</b>	<b>177,988</b>	<b>12,361</b>	<b>22,080</b>
<b>CASH AND DUE FROM BANKS AT BEGINNING OF YEAR</b>	<b>562,956</b>	<b>700,267</b>	<b>878,255</b>	<b>1,568,789</b>
<b>CASH ACQUIRED IN MERGER WITH BANCO EDWARDS</b>	<b>260,035</b>			
<b>CASH AND DUE FROM BANKS AT END OF YEAR</b>	<b>700,267</b>	<b>878,255</b>	<b>890,616</b>	<b>1,590,869</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
<b>Cash paid during the year for:</b>				
Interest paid	290,829	260,823	238,769	426,502
Income taxes paid	29,601	28,290	32,445	57,954
<b>Non - cash investing transaction during the year for:</b>				
Issuance of stock for net assets of Banco de A. Edwards, as follows:				
Cash acquired	260,035			
Financial investments and loans, net	2,649,190			
Bank premises and equipment	63,372			
Other assets	106,507			
Liabilities	(2,823,861)			
Sub-Total	255,243			
Stock issued	(255,243)			
Total				

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

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY****(Restated for general price-level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004 and thousands of U.S. dollars)**

	Number of shares	Paid in share capital		Other		Total
		Reserves	Accounts	Net Income		
	Millions	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Balance as of January 1, 2002	68,079.8	463,813	75,929	826	97,071	637,639
Transfer to retained earnings			3		(3)	
Dividends paid (1)					(97,068)	(97,068)
Price-level restatement		13,914	1,873			15,787
Absorption of subsidiaries companies			(108)			(108)
Net change in unrealized gains (losses) on permanent financial investments (*)				7,620		7,620
Net adjustment for translation differences				1,725		1,725
Net Income for the year					52,635	52,635
<b>Balance as of December 31, 2002</b>	<b>68,079.8</b>	<b>477,727</b>	<b>77,697</b>	<b>10,171</b>	<b>52,635</b>	<b>618,230</b>
Balance as of December 31, 2002 restated in constant Chilean pesos as of December 31, 2004		494,566	80,436	10,530	54,490	640,022
Balance as of January 1, 2003	68,079.8	477,727	77,697	10,171	52,635	618,230
Transfer to retained earnings			3		(3)	
Dividends paid (2)					(52,632)	(52,632)
Price-level restatement		4,777	1,041			5,818
Net change in unrealized gains (losses) on permanent financial investments (*)				(2,617)		(2,617)
Net adjustment for translation differences				(3,676)		(3,676)
Net Income for the year					130,553	130,553
<b>Balance as of December 31, 2003</b>	<b>68,079.8</b>	<b>482,504</b>	<b>78,741</b>	<b>3,878</b>	<b>130,553</b>	<b>695,676</b>
Balance as of December 31, 2003 restated in constant Chilean pesos as of December 31, 2004		494,566	80,710	3,975	133,817	713,068
Balance as of January 1, 2004	68,079.8	482,504	78,741	3,878	130,553	695,676
Transfer to retained earnings			3		(3)	
Dividends paid (3)					(130,550)	(130,550)
Common stock repurchased (4)	(1,702.0)		(52,762)			(52,762)
Price-level restatement		12,062	(75)			11,987
Net change in unrealized gains (losses) on permanent financial investments (*)				(195)		(195)



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Net adjustment for translation differences				(2,251)		(2,251)
Net Income for the year					152,628	152,628
<b>Balance as of December 31, 2004</b>	<b>66,377.8</b>	<b>494,566</b>	<b>25,907</b>	<b>1,432</b>	<b>152,628</b>	<b>674,533</b>

- (1) On March 21, 2002, the Ordinary General Shareholders Meeting agreed to distribute a dividend for a total of MCh\$ 97,068 (in historical pesos).
  - (2) On March 20, 2003, the Ordinary General Shareholders Meeting agreed to distribute a dividend for a total of MCh\$ 52,632 (in historical pesos).
  - (3) On March 18, 2004, the Ordinary General Shareholders Meeting agreed to distribute a dividend for a total of MCh\$ 130,550 (in historical pesos).
  - (4) During the month of April 2004, Banco de Chile purchased 1,701,994,590 of its own shares for Ch\$ 31 per share, which totaled MCh\$ 52,762 (in historical pesos).
- (\*) These balances are presented net of the deferred taxes originated from adjustments to the market value of the permanent investment portfolio.

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

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2004)**

**1. Summary of Significant Accounting Policies**

*(a) Basis of presentation*

Banco de Chile ( Banco de Chile or the Bank ) is a corporation organized under the laws of the Republic of Chile, regulated by the Chilean Superintendencia de Bancos e Instituciones Financieras (the Superintendency of Banks and Financial Institutions ). Starting in 2001, Banco de Chile is regulated by the United States Securities and Exchange Commission ( SEC ), as the Bank is listed on the New York Stock Exchange ( NYSE ) through its American Depository Receipt (ADR) program, which is also registered with the London Stock Exchange. Banco de Chile s shares are also listed on the Madrid Stock Exchange to be traded on the Latinamerican securities market ( LATIBEX ).

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

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

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

The consolidated financial statements include the financial position and results of operations of Banco de Chile and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidation. The majority-owned subsidiaries

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of Banco de Chile as of December 31, 2003 and 2004 are as follows:

<u>Subsidiary</u>	<b>Interest Owned %</b>					
	<b>2003</b>			<b>2004</b>		
	<b>Direct</b>	<b>Indirect</b>	<b>Total</b>	<b>Direct</b>	<b>Indirect</b>	<b>Total</b>
Banchile Trade Services Limited				100.00		100.00
Banchile Administradora General de Fondos S.A.	99.98	0.02	100.00	99.98	0.02	100.00
Banchile Asesoría Financiera S.A.	99.94		99.94	99.94		99.94
Banchile Corredores de Seguros Ltda.	99.75	0.25	100.00	99.75	0.25	100.00
Banchile Corredores de Bolsa S.A.	99.68	0.31	99.99	99.68	0.32	100.00
Banchile Factoring S.A.	99.52	0.48	100.00	99.52	0.48	100.00
Banchile Securitizadora S.A.	99.00	1.00	100.00	99.00	1.00	100.00
Socofin S.A.	99.00	1.00	100.00	99.00	1.00	100.00
Promarket S.A.	99.00	1.00	100.00	99.00	1.00	100.00

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****1. Summary of Significant Accounting Policies (continued)***(b) Price-level restatement*

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

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

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

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

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

For comparative purposes, the consolidated financial statements for periods through December 31, 2003 have been restated in Chilean pesos of general purchasing power as of December 31, 2004 ( constant pesos ), to reflect changes in the CPI from the financial statement dates to December 31, 2004. This updating does not change the prior year's financial statements or information in any way except to update the amounts therein to constant pesos of similar purchasing power. Amounts previously presented in constant Chilean pesos as of each balance sheet date have been adjusted by the percentage changes in the Chilean CPI to December 31, 2004, as follows:

<u>Year</u>	<u>Change in Index</u>
2002	3.5%
2003	2.5%

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

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

<u>Year</u>	<u>Index (*)</u>	<u>Change in Index</u>
2002	113.36	3.0%
2003	114.44	1.0%
2004	117.28	2.5%

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

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

The net charge to income for price-level restatement is comprised of the following restatements of non-monetary assets and liabilities. These figures are expressed in constant Chilean pesos of December 31, 2004.

	<b>Year ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
Shareholders' equity	(16,344)	(5,964)	(11,987)
Bank premises and equipment	4,688	1,264	3,019
Investment in other companies	1,037	381	1,036
Other, net	685	182	466
<b>Net loss from price-level restatement</b>	<b>(9,934)</b>	<b>(4,137)</b>	<b>(7,466)</b>

*(c) Index-linked assets and liabilities*

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

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

<u>December 31,</u>	<u>Ch\$</u>
2002	16,744.12
2003	16,920.00
2004	17,317.05

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

### *(d) Interest revenue and expense recognition*

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

The Bank suspends the accrual of interest and readjustments on loans when there is a high risk of unrecoverability or from the first day in which they become overdue. Accrued interest up to the suspension date remains on the Bank's assets and is considered a part of the loan balance when determining the allowance for loan losses. Payments received on past due loans are recognized as income, after reducing the balance of accrued interest, if applicable.

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**BANCO DE CHILE AND SUBSIDIARIES**

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**Chilean pesos as of December 31, 2004)**

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

*(e) Foreign currency and derivative activities*

The Bank and its subsidiaries protect themselves against variations in the foreign exchange market by using forward contracts, currency forward contracts, currency swaps and interest rates swaps. These activities include hedging and treasury operations and help the Bank and its subsidiaries provide capital markets products to their clients.

Forward contracts are valued at the exchange rate prevailing as of the close of each month and, in accordance with regulations of the Superintendency of Banks and Financial Institutions, the initial differences produced by this type of operation are recognized as deferred assets or liabilities and are amortized over the duration of the respective contract. In addition to the aforementioned forward contracts, the Bank and its subsidiaries have currency futures contracts. These contracts are valued at the daily observed exchange rate and resulting gains or losses are charged to income on an accrual basis.

The interest rate swap contracts are valued at the close of each month in accordance with the agreed-upon interest rates, recording the differences as a credit or charge to income. Additionally, the Bank and its subsidiaries charge to income the adjustment to market value of the swap contract portfolio which is used to hedge interest rate and foreign currency risks.

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

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

*(f) Financial investments*



Financial investments traded on a secondary market are shown adjusted to market value, following specific instructions from the Superintendency of Banks and Financial Institutions. These instructions require that such adjustments be recognized against income, except in the case of the investment portfolio classified as permanent which may be recorded directly in the equity account, Change in unrealized gains (losses) on permanent financial investments .

The application of this adjustment generated net unrealized gains in income of MCh\$ 16,121 and a net unrealized loss in income of MCh\$ 10,483 and MCh\$ 717, in 2002, 2003 and 2004 respectively, which was included in operating income under Gains (losses) from trading activities . The adjustment of the permanent investment portfolio was a net credit of MCh\$ 9,403, a net debit of MCh\$ 3,190 and MCh\$ 235, in 2002, 2003 and 2004, respectively, which is presented in equity net of taxes.

The Bank and its subsidiaries enter into security repurchase agreements as a form of borrowing. The Bank's investments that are sold subject to a repurchase obligation and that serve as collateral for borrowings are reclassified as Investment collateral under agreements to repurchase . The liability to repurchase the investment is classified as Investments sold under agreements to repurchase , which is valued in accordance with the agreed-upon interest rate.

The Bank and its subsidiaries also enter into resale agreements as a form of investment. Under these agreements the Bank and its subsidiaries purchases securities, which are included as assets under the caption Investments purchased under agreements to resell , which are valued in accordance with the agreed-upon interest rate.

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

<b><u>Property, plant and equipment</u></b>	<b><u>Estimated Useful Life</u></b>
Land and buildings	5-80
Furniture and fixtures	3-10
Machinery and equipment	2-10
Vehicles	5
Other	6-8

*(h) Leasing contracts*

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

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

*(i) Factoring transactions*

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The Bank and its subsidiary Banchile Factoring S.A. carry out factoring transactions with their customers, by means of which they receive invoices and other commercial instruments representative of credit and they advance to the assigner a percentage of the total amounts to be collected from the original debtor.

The caption *Other outstanding loans* includes MCh\$197,365 (MCh\$101,683 in 2003), corresponding to the amount advanced to the assigner plus accrued interest net of payments received.

### *(j) Investments in other companies*

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

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

*(k) Intangibles*

In accordance with instructions from the Superintendency of Banks and Financial Institutions, intangible assets are classified in Other Assets . Both investments in software and licenses to use trademarks are valued at price-level restated cost and amortized using the straight-line method over their useful lives. The amortization period of the investments in software cannot exceed six years.

As of December 31, 2004, intangible assets amount to MCh\$11,085 (MCh\$5,459 in 2003), corresponding to investments in software and MCh\$2 (MCh\$5 in 2003) corresponding to payments for licenses to use trademarks.

*(l) Allowance for loan losses*

The loans granted and acquired by the Bank and its subsidiaries are initially recorded at cost (i.e. the original amount loaned). After this initial recording, the loans are valued at their amortized cost and presented net of allowances for loan losses.

Beginning on January 1, 2004, in accordance with Circular No. 3,246 of the Superintendency of Banks and Financial Institutions, the Bank, its subsidiaries and foreign branches are required to apply new models and methods, based on an individual and group analysis of the debtors, to constitute the allowances for loan losses.

Allowances for individual evaluations

An individual analysis of debtors is applied to individuals or companies with whom, due to size, complexity or level of exposure with the entity, the Bank is required to have an in-depth understanding of their financial condition. Likewise, it requires assigning a risk category to each debtor and its respective loans. This risk category should contemplate the following factors: industry or sector, partners and administration, financial situation, conduct and payment capacity.

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One of the following categories must be assigned to each debtor and its loans after the analysis has been finalized:

- i. Categories A1, A2 and A3 correspond to debtors without significant risks, whose payment capacity will continue to be positive even if unfavorable business, economic or financial situations should arise.
- ii. Category B corresponds to debtors that present some risk, but that do not show any sign of impairment. However, these debtors might stop paying some of their obligations in the face of foreseeable, adverse business, economic or financial situations.
- iii. Categories C1, C2, C3, C4, D1 and D2 correspond to debtors with insufficient payment capacity.

In order to determine allowances for loan losses classified as A1, A2, A3 and B, the Bank uses percentages approved by its Board of Directors. Allowance for debtors classified as C1, C2, C3, C4, D1 and D2 were determined, in conformity with new regulations, as follows:

<u>Category</u>	<u>Range of estimated loss</u>	<u>Allowance</u>
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%

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

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

Allowances for group evaluations

The group analysis is used to analyze a large number of operations whose individual amounts are not significant. For this analysis, the Bank uses models based on attributes of the debtors and their loans, and on the behavior of a group of loans. In the group evaluations, the allowances are always constituted in accordance with the estimated loss using the aforementioned models.

Additional allowances

In conformity with regulations of the Superintendency of Banks and Financial Institutions, the Bank has constituted additional allowances for its individually evaluated loan portfolio, taking into consideration the estimated credit loss of this portfolio. The calculation of this allowance is performed based on the Bank's historical experience and considering possible future adverse macroeconomic conditions or circumstances that could affect a certain sector, industry or groups of debtors or projects.

Charge-offs

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

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

- 36 months past due for loans with collateral.

Loan loss recoveries

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

**Previous Guidelines**

Global loan loss allowance

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

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

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

## Individual loan loss allowance

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

## Voluntary loan loss allowance

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

*(m) Income taxes*



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

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

### *(n) Consolidated statements of cash flows*

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks. For the years ended December 31, 2002, 2003 and 2004 the consolidated statement of cash flows has been prepared in accordance with Technical Bulletin No.65 of the Chilean Association of Accountants.

### *(o) Staff severance indemnities*

The Bank has recorded a liability for long-term severance indemnities in accordance with employment contracts it has with certain employees. The liability, which is payable to specified retiring employees with more than 30 years of service, is recorded at the present value of the accrued benefits, which are calculated by applying a real discount rate to the benefit accrued as of year-end over the estimated average remaining service period. For the years ended December 31, 2002, 2003 and 2004, the obligation has been discounted using the real interest rate of 7% per annum.

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

*(p) Fees and expenses related to loans and services*

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

*(q) Convenience translation to U.S. dollars*

The Bank maintains its accounting records and prepares its consolidated financial statements in Chilean pesos. The U.S. dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader at the observed exchange rate for December 31, 2004 of Ch\$ 559.83 per US\$1.00. This translation should not be construed as representing that the Chilean peso amounts actually represent or have been, or could be, converted into U.S. dollars at such a rate or, any other rate.

*(r) Translation of financial statements of the Bank's foreign branches and subsidiaries*

The Bank translates the accounting records of its branches in New York and Miami, USA and its subsidiary Banchile Trade Services Limited, Hong Kong to Chilean pesos from US dollars in accordance with guidelines established by the Superintendency of Banks and Financial Institutions which are consistent with Technical Bulletin No. 64, "Accounting for investments abroad", issued by the Chilean Association of Accountants. All income statement and balance sheet amounts are translated into Chilean pesos as of the exchange rate in effect as of the applicable balance sheet date. Under this standard the foreign investment recorded in the parent company's books is price-level restated, the effects of which are reflected in income, while any foreign exchange gains or losses between the Chilean peso and the US dollar, net of the effects of Chilean inflation, is recorded in shareholders' equity in the account "Other equity accounts".

*(s) Reclassifications*

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Certain minor reclassifications have been made to balances in the 2002 and 2003 financial statements in order to conform with the 2004 presentation.

### *(t) Assets received in lieu of payment*

Assets received in lieu of payment are recorded at restated cost less regulatory charge-offs and presented net of a global valuation allowance. Regulatory charge-offs are required by the Superintendency of Banks and Financial Institutions if the asset is not sold within one year of foreclosure. As instructed by the Superintendency of Banks and Financial Institutions, charge-offs are recorded on a straight-line basis over the following 12 month period.

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**2. Changes in Accounting Principles**

On January 1, 2004, in accordance with Circular No. 3,246 of the Superintendency of Banks and Financial Institutions, the new standards on determination of Loan Loss Provisions established in Chapter 7-10 of this Superintendency's accounting rules became effective. Application of this new criterion for determining provisions did not have a significant effect on the financial situation of the Bank and its subsidiaries presented in these consolidated financial statements. In addition, the Bank redesignated the voluntary provisions recorded as of December 31, 2003 to the additional provisions category in conformity with the new regulations.

**3. Cash and Due from Banks**

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

In accordance with guidelines established by the Superintendency of Banks, the Bank must maintain certain non-interest bearing balances in its account with the Central Bank. The required balances are based upon specified financial criteria, including the level of the Bank's deposits, the amounts of its foreign borrowings and its average liabilities. These restricted cash amounts totaled MCh\$ 167,839 and MCh\$ 164,500 as of December 31, 2003 and 2004, respectively.

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Chilean pesos as of December 31, 2004)

**4. Financial Investments**

A summary of financial investments is as follows:

	As of December 31,		Weighted Average
	2003	2004	Nominal Rate as of December 31, 2004
	MCh\$	MCh\$	%
<b>Central Bank and Government Securities</b>			
Marketable debt securities	992,611	903,733	2.83
Chilean government securities	42,894	9,923	4.21
Investments purchased under agreements to resell	30,402	26,310	2.47
Investment collateral under agreements to repurchase	332,690	169,982	5.15
<b>Subtotal</b>	<b>1,398,597</b>	<b>1,109,948</b>	<b>3.19</b>
<b>Corporate Securities and Other Financial Investments</b>			
Investments in Chilean financial institutions	135,244	43,203	4.66
Foreign government notes	34,453	28,298	2.16
Investments in foreign countries	191,223	137,288	3.36
Other financial investments	109,024	111,336	6.85
Investments collateral under agreements to repurchase	95,691	177,200	7.47
<b>Subtotal</b>	<b>565,635</b>	<b>497,325</b>	<b>5.65</b>
<b>Total</b>	<b>1,964,232</b>	<b>1,607,273</b>	<b>3.95</b>

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

As of December 31,

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	2003	2004
	MCh\$	MCh\$
Permanent	42,981	44,134
Trading	1,921,251	1,563,139
<b>Total</b>	<b>1,964,232</b>	<b>1,607,273</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**5. Loans**

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

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

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

*Mortgage loans* are inflation indexed, fixed rate, long-term loans with monthly payments of principal and interest collateralized by a real property mortgage. These loans are financed through 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 fixed rate, short-term loans granted in foreign currencies (principally U.S. dollars) to finance imports and exports.

*Interbank loans* are fixed rate, short-term loans to financial institutions that operate in Chile.

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

*Other outstanding loans* principally include bills of exchange, other mortgage loans, which are financed by the Bank'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 unused letters of credit together with guarantees granted by the Bank in Ch\$, UF and foreign currencies (principally U.S. dollars).

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

	As of December 31,	
	2003	2004
	%	%
Financial Services	18.83	19.91
Residential mortgage loans	19.03	20.10
Manufacturing	10.46	10.22
Commerce	12.11	11.82
Agriculture, livestock, forestry, agribusiness, fishing	8.10	7.85
Consumer loans	12.49	13.81

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



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The Bank's scheduled cash flows to be received from leasing contracts have the following maturities as of December 31, 2004:

<b>Maturity</b>	<b>As of December 31, 2004</b>		
	<b>Total</b>	<b>Unearned</b>	<b>Net lease</b>
	<b>Receivable</b>	<b>Income</b>	<b>Receivable</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
Due within one year	108,447	(17,152)	91,295
Due after 1 year but within 2 years	77,945	(13,035)	64,910
Due after 2 years but within 3 years	58,970	(9,730)	49,240
Due after 3 years but within 4 years	42,880	(7,336)	35,544
Due after 4 years but within 5 years	35,533	(5,413)	30,120
Due after 5 years	85,489	(12,745)	72,744
<b>Total leasing contracts</b>	<b>409,264</b>	<b>(65,411)</b>	<b>343,853</b>

Leased assets consist principally of real estate, industrial machinery, vehicle, and computer equipment. The allowance for uncollectible lease receivable was MCh\$ 5,861 as of December 31, 2004 (MCh\$ 8,480 as of December 31, 2003), which forms part of the allowance for loan losses.

**7. Allowance for Loan Losses**

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

<b>2002</b>	<b>2003</b>	<b>2004</b>
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	MCh\$	MCh\$	MCh\$
Balance as of January 1,	241,002	223,678	183,938
Price-level restatement (1)	(6,660)	(2,817)	(4,608)
Charge-offs	(114,856)	(98,535)	(99,100)
Provisions established	129,538	63,103	75,069
Provisions released	(25,346)	(1,491)	(1,557)
<b>Balance as of December 31,</b>	<b>223,678</b>	<b>183,938</b>	<b>153,742</b>

- (1) Reflects the effect of both inflation and exchange rate changes of foreign branches and the Bank's subsidiaries on the allowance for loan losses at the beginning of each period, adjusted to constant pesos of December 31, 2004.

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

	Years ended December 31,		
	2002	2003	2004
	MCh\$	MCh\$	MCh\$
Provisions established	129,538	63,103	75,069
Provisions released	(25,346)	(1,491)	(1,557)
<b>Net charges to income</b>	<b>104,192</b>	<b>61,612</b>	<b>73,512</b>

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

	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Land and buildings	95,013	92,141
Machinery and equipment	27,400	31,945
Furniture and fixtures	5,676	5,347
Vehicles	641	812
Others	2,219	2,425
<b>Bank premises and equipment, net</b>	<b>130,949</b>	<b>132,670</b>

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

**9. Investments in other companies**

As of December 31, 2002, 2003 and 2004, investments in other companies and the Bank's participation in such companies' results of operations for each of the periods indicated, consist of the following:

<b>As of and for the years ended December 31,</b>			
<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>Ownership</b>
<b>Investment</b>	<b>Investment</b>	<b>Investment</b>	

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	Income		Income		Income		Interest
	(Loss)		(Loss)		(Loss)		2004
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	%
Soc. Operadora de Tarjetas de Crédito Nexus S.A.	905	49	1,011	146	1,066	172	25.81
Servipag Ltda.	741	52	831	90	984	152	50.00
Redbanc S.A.	903	157	1,046	298	884	138	25.42
Transbank S.A.	864	132	867	132	865	132	17.44
Bolsa de Comercio de Santiago (Stock Exchange)	659	96	559	90	558	90	4.17
Soc. Operadora Cámara Compensación de Pagos Alto Valor S.A. (1)					276	(17)	18.16
Sociedad Interbancaria de Depósito de Valores S.A.	251	44	244	37	217	34	17.60
Centro de Compensación Automatizado S.A. (CCA S.A.)	158	12	204	45	189	31	33.33
Bolsa de Valores de Chile (Stock Exchange)	126	1	127	1	130	3	5.00
Artikos Chile S.A (2).	(71)	(1,287)	208	(2,046)	43	(165)	50.00
Empresa de Tarjetas Inteligentes S.A.	161	(150)	117	(44)		(134)	26.67
<b>Total investments in other companies accounted for under the equity method</b>	<b>4,697</b>	<b>(894)</b>	<b>5,214</b>	<b>(1,251)</b>	<b>5,212</b>	<b>436</b>	
Other investments carried at cost	248	(110)	214		200		
<b>Total investments in other companies</b>	<b>4,945</b>	<b>(1,004)</b>	<b>5,428</b>	<b>(1,251)</b>	<b>5,412</b>	<b>436</b>	

- (1) On September 23, 2004, a banking support company, Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A., was formed. This company's objective is to provide pay compensation services among its members. The Bank subscribed and fully paid MCh\$292 for this company's capital, which gives it a participation of 18.16%.
- (2) On May 19, 2003, the Extraordinary General Shareholders Meeting of Artikos S.A., agreed to increase the capital of this company by means of issuing 10,000 shares. On June 2, 2003, the Bank subscribed and paid for 5,000 shares for a value of MCh\$2,339.

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	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Deferred income tax assets	93,751	64,749
Credit card charges in process	45,408	51,970
Amounts receivable under spot foreign exchange transaction	40,127	50,483
Assets for leasing	25,111	26,843
Software investment	5,459	11,085
Deferred asset on bonds issuances	6,255	8,080
Accounts receivable		7,548
Transactions in process	1,407	6,789
Deferred fees	2,819	5,252
Balances with domestic branches	9,299	4,174
VAT fiscal credit	3,300	3,198
Accounts receivable for assets received in lieu of payment sold	4,697	2,915
Deferred asset related to mortgage finance bonds issued by the bank	2,138	2,152
Deferred expenses	1,092	2,068
Recoverable taxes	964	1,386
Materials and supplies	490	475
Other	16,096	12,766
<b>Total other assets</b>	<b>258,413</b>	<b>261,933</b>

*(b) Other liabilities*

<b>As of December 31,</b>	
<b>2003</b>	<b>2004</b>

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	MCh\$	MCh\$
Accounts payable	103,450	125,529
Amounts payable under spot foreign exchange transaction	48,206	52,035
Derivative instruments, net	9,538	44,581
Deferred tax liabilities	49,455	18,899
Accrued staff vacation expense	9,398	9,826
Deferred liability on bonds issuances	6,256	8,080
Allowance of income taxes	10,157	8,008
Accrued severance staff indemnities	7,721	7,633
Commissions deferred	3,935	4,177
Leasing deferred gains	4,277	4,174
Administration and credit card contract provision	4,741	3,226
VAT fiscal debit	3,289	3,205
Transactions in process	1,670	1,341
Legal contingencies provision	775	925
Other	3,501	2,971
<b>Total other liabilities</b>	<b>266,369</b>	<b>294,610</b>

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2004)

**10. Other Assets and Other Liabilities (continued)***(c) Contingent Liabilities*

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

**11. Other Interest Bearing Liabilities**

The Bank's long-term and short-term borrowings are summarized below. In accordance with the guidelines established by the Superintendency of Banks, the Bank does not present a classified balance sheet. Borrowings are described as short-term when they have original maturities of less than one year or are due on demand. All other borrowings are described as long-term, including the amounts due within one year on such borrowings.

	As of December 31, 2003			As of December 31, 2004		
	Long-term	Short-term	Total	Long-term	Short-term	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Central Bank Credit lines for renegotiation of loans	3,049		3,049	1,930		1,930
Other Central Bank borrowings		25,529	25,529		107,643	107,643
Mortgage finance bonds	1,039,813		1,039,813	788,888		788,888
Bonds	3,205		3,205	181,515		181,515
Subordinated bonds	277,977		277,977	266,304		266,304
Borrowings from domestic financial institutions	106	51,023	51,129		26,399	26,399
Foreign borrowings	462,131	273,787	735,918	254,812	340,736	595,548
Investments under agreements to repurchase		437,410	437,410		349,086	349,086
Other obligations	10,092	50,998	61,090	11,089	33,758	44,847
<b>Total other interest bearing liabilities</b>	<b>1,796,373</b>	<b>838,747</b>	<b>2,635,120</b>	<b>1,504,538</b>	<b>857,622</b>	<b>2,362,160</b>

*(a) Central Bank borrowings*

Central Bank borrowings include credit lines for the renegotiation of loans and other Central Bank borrowings. Credit lines were provided by the Central Bank for the renegotiation of mortgage loans due to the need to refinance debts as a result of the economic recession and crisis of the Chilean banking system from 1982 to 1985. The credit lines for the renegotiations of mortgage loans are linked to the UF index and carry a real annual interest rate of 2.29%. The maturities of the outstanding amounts are as follows:

	<b>As of December 31, 2004</b>
	<b>MCh\$</b>
Due within 1 year	1,930
Due after 1 year but within 2 years	
Due after 2 years but within 3 years	
Due after 3 years but within 4 years	
Due after 4 years but within 5 years	
Due after 5 years	
<b>Total long-term (Credit lines for renegotiation of loans)</b>	<b>1,930</b>
<b>Total short-term (Other Central Bank borrowings)</b>	<b>107,643</b>
<b>Total Central Bank borrowings</b>	<b>109,573</b>



**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****11. Other Interest Bearing Liabilities (continued)***(b) Mortgage finance bonds*

These bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and carry a weighted average annual rate of interest of 5.9% as of December 31, 2004.

The maturities of outstanding mortgage bond amounts as of December 31, 2004 are as follows:

	As of December 31,
	2004
	<u>MCh\$</u>
Due within 1 year	79,647
Due after 1 year but within 2 years	71,034
Due after 2 years but within 3 years	71,525
Due after 3 years but within 4 years	69,640
Due after 4 years but within 5 years	68,004
Due after 5 years	429,038
<b>Total mortgage finance bonds</b>	<b><u>788,888</u></b>

*(c) Bonds*

The maturities of outstanding bonds amounts as of December 31, 2004 are as follows:

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	As of December 31,
	2004
	MCh\$
Due within 1 year	29,408
Due after 1 year but within 2 years	28,311
Due after 2 years but within 3 years	27,931
Due after 3 years but within 4 years	27,387
Due after 4 years but within 5 years	27,486
Due after 5 years	40,992
<b>Total bonds</b>	<b>181,515</b>

Bonds are linked to the UF Index and carried an average real annual interest rate of 3.6% as of December 31, 2004, with interest and principal payments due semi-annually. The bonds were originally intended to finance loans that had a maturity of greater than one year.

*(d) Subordinated bonds*

In 2002 the Bank issued Bonds totaling UF1,580,000 (known as 6.5% Bonds ) at a discount of UF98,670. The 6.5% Bonds are linked to the UF index with interest and principal payments due semi-annually. The discount on the issuance of the 6.5% Bonds is amortized over the life of the bond. As of December 31, 2004, the effective real interest rate is 7.0%, taking into consideration the discount on issuance.

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The 6.5% Bonds are intended for the financing of loans having a maturity of greater than one year. As of December 31, 2004 the outstanding maturities of these bonds, which are considered long-term, are as follows:

	<b>As of December 31, 2004</b>
	<b>MCh\$</b>
Due within 1 year	26,605
Due after 1 year but within 2 years	20,417
Due after 2 years but within 3 years	20,417
Due after 3 years but within 4 years	20,417
Due after 4 years but within 5 years	20,417
Due after 5 years	158,031
<b>Total subordinated bonds</b>	<b>266,304</b>

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

*(e) Borrowings from domestic financial institutions*

Borrowings from domestic financial institutions are used to fund the Bank's general activities, carry a weighted average annual real interest rate of 2.4% and have the following outstanding maturities as of December 31, 2004.

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	As of December 31, 2004
	MCh\$
Due within 1 year	
Due after 1 year but within 2 years	
Due after 2 years but within 3 years	
Due after 3 years but within 4 years	
Due after 4 years but within 5 years	
Due after 5 years	
<b>Total long-term</b>	
<b>Total short-term</b>	<b>26,399</b>
<b>Total borrowings from domestic financial institutions</b>	<b>26,399</b>

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****11. Other Interest Bearing Liabilities (continued)***(f) Foreign borrowings*

The Bank has short-term and long-term borrowings from foreign banks. The outstanding maturities of these borrowings as of December 31, 2004 are as follows:

	<b>As of December 31, 2004</b>
	<b>MCh\$</b>
Due within 1 year	215,576
Due after 1 year but within 2 years	39,236
Due after 2 years but within 3 years	
Due after 3 years but within 4 years	
Due after 4 years but within 5 years	
Due after 5 years	
<b>Total long-term</b>	<b>254,812</b>
<b>Total short-term</b>	<b>340,736</b>
<b>Total foreign borrowings</b>	<b>595,548</b>

All of these loans are denominated in U.S. dollars, are principally used to fund the Bank's foreign trade loans and carry an average annual nominal interest rate of 2.3% as of December 31, 2004.

*(g) Other obligations*

As of December  
31,

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	2003	2004
	MCh\$	MCh\$
Other long-term obligations:		
Obligations with Chilean government	10,092	11,089
<b>Total other long-term obligations</b>	<b>10,092</b>	<b>11,089</b>
Other short-term obligations	50,998	33,758
<b>Total other obligations</b>	<b>61,090</b>	<b>44,847</b>

As of December 31, 2004, other obligations had the following maturities:

	As of December 31, 2004
	MCh\$
Due within 1 year	1,396
Due after 1 year but within 2 years	1,595
Due after 2 years but within 3 years	1,787
Due after 3 years but within 4 years	1,762
Due after 4 years but within 5 years	1,555
Due after 5 years	2,994
<b>Total long-term</b>	<b>11,089</b>
<b>Total short-term</b>	<b>33,758</b>
<b>Total other obligations</b>	<b>44,847</b>

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****12. Obligations Arising From Lease Commitments**

The Bank leases certain premises under operating leases. The following table shows the future minimum payments under the terms of the lease commitments, expressed in constant Chilean pesos as of December 31, 2004.

	<b>As of December 31, 2004</b>
	<b>MCh\$</b>
Due within 1 year	5,711
Due after 1 year but within 2 years	4,401
Due after 2 years but within 3 years	3,732
Due after 3 years but within 4 years	2,941
Due after 4 years but within 5 years	2,031
Due after 5 years	3,341
<b>Total obligations arising from lease commitments</b>	<b>22,157</b>

The rental expense on premises was MCh\$ 7,338, MCh\$ 7,172 and MCh\$ 7,080 for the years ended December 31, 2002, 2003 and 2004, respectively, and is included in the Consolidated Statements of Income under Administrative and other expenses .

**13. Derivative Financial Instruments***(a) Derivative activities*

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

*(b) Market risk and risk management activities*

All derivative instruments are subject to market risk. This is defined as the risk that future changes in market conditions may make an investment more or less valuable. The Bank manages exposure to market risk in accordance with risk limits set by senior management by buying or selling instruments or entering into off-setting positions.

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

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



**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****13. Derivative Financial Instruments (continued)***(b) Market risk and risk management activities (continued)*

The notional amounts of these contracts as of December 31, 2003 and 2004 are as follows:

Description of transaction	Number of operations		Contract Amounts				
			Less than 3 months		Over 3 months		
	2003	2004	2003	2004	2003	2004	
				ThUS\$	ThUS\$	ThUS\$	ThUS\$
<b>Local Market:</b>							
- Foreign currency future purchase contracts with Chilean currency	1,144	850	691,065	599,971	1,343,865	1,906,977	
- Foreign currency future sale contracts with Chilean currency	1,097	1,214	505,762	555,310	1,224,347	1,494,802	
- Foreign currency forward contracts	21	24	10,101	18,588	7,449	3,551	
<b>Foreign Markets:</b>							
- Foreign currency future contracts with Chilean currency	4	18	12,000	55,500	40,000	72,085	
- Foreign currency forward contracts	70	84	19,104	46,616	26,492	12,953	
- Foreign currency futures sold	179	171	24,540	25,560			
- Interest rate swaps	137	89	32,000		1,480,385	1,048,184	

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

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

Description of transaction	Contract Amounts					
	Number		Less than 3 months		Over 3 months	
	2003	2004	2003	2004	2003	2004
			MCh\$	MCh\$	MCh\$	MCh\$
UF/pesos forward contracts purchased	27	68	1,734	3,463	48,560	237,244
UF/pesos forward contracts sold	76	31	6,937	3,459	140,478	102,856
Interest rate swaps	10	30		17,317	62,435	127,110

*(d) Options*

As of December 31 of each year, the balances for this type of transaction are as follows:

Description of transaction	Contract Amounts					
	Number of operations		Less than 3 months		Over 3 months	
	2003	2004	2003	2004	2003	2004
			ThUS\$	ThUS\$	ThUS\$	ThUS\$
Purchase option		1				6,000

*(e) Fair value of traded instruments*

The table below sets forth the estimated fair value of derivative financial instruments held or issued by the Bank for trading purposes as of December 31, 2003 and 2004.

	Fair value as of December 31,	
	2003	2004
	MCh\$	MCh\$
Contracts to purchase and sell foreign exchange	(13,459)	(17,597)
Interest rate swaps	15,719	(21,125)

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

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In accordance with the Chilean Banking Law, Chilean Banks are required to maintain a minimum equity level of UF800,000, equivalent to MCh\$ 13,854 as of December 31, 2004. In addition, Chilean Banks are required to maintain a minimum capital (capital and reserves) of at least 3% of their total assets net of provisions, and an effective equity of not less than 8% of their risk-weighted assets. The effective equity is defined as net capital base plus subordinated bonds, up to 50% of the capital and reserves, plus voluntary provisions of up to 1.25% of their risk-weighted assets. The value of the subordinated bonds that can be considered in the effective equity should decrease by 20% per year beginning six years prior to maturity.

The Bank's actual qualifying net capital base and effective equity used to support its risk-weighted assets as of December 31, 2004, are set forth in the following table:

	<b>As of December 31, 2004</b>
	<b>MCh\$</b>
<b>Basic Capital</b>	521,905
3% of total assets net of provisions	(291,354)
<b>Excess over minimum required equity</b>	<b>230,551</b>
<b>Net capital base as a percentage of the total assets, net of provisions</b>	<b>5.37%</b>
<b>Effective equity</b>	779,870
8% of risk-weighted assets	(534,429)
<b>Excess over minimum required equity</b>	<b>245,441</b>
<b>Effective equity as a percentage of the risk-weighted assets (*)</b>	<b>11.67%</b>

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

**15. Shareholders Equity**

*Dividends*

Dividends are declared and paid during the year subsequent to that in which the related net income was earned. Dividends declared and paid in 2002, 2003 and 2004 in constant Chilean pesos of December 31, 2004 are as follows:

	<b>Paid during the year ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
Dividends relating to prior year net income	100,490	53,949	130,550

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****16. Transactions with Related Parties**

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

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

*(a) Loans granted to related parties*

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

	As of December 31,					
	2002		2003		2004	
	Collateral		Collateral		Collateral	
	Loans	Pledged	Loans	Pledged	Loans	Pledged
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Operating companies	99,824	23,830	80,961	22,041	110,806	45,014
Investment companies	7,188	2,286	18,193	2,371	17,023	2,343
Individuals (1)	1,815	1,422	2,337	1,617	2,930	2,629
<b>Total</b>	<b>108,827</b>	<b>27,538</b>	<b>101,491</b>	<b>26,029</b>	<b>130,759</b>	<b>49,986</b>

(1) Includes only debt obligations that are equal to or greater than UF3,000, equivalent to approximately MCh\$ 52 as of December 31, 2004.

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

	<u>2003</u>	<u>2004</u>
	MCh\$	MCh\$
Balance as of January 1,	108,827	101,491
New loans	30,039	72,062
Repayments	(36,298)	(40,319)
Price-level restatement (1)	(1,077)	(2,475)
	<u>          </u>	<u>          </u>
<b>Balance as of December 31,</b>	<b><u>101,491</u></b>	<b><u>130,759</u></b>

(1) Reflects the effect of restatement of beginning balances to constant pesos of December 31, 2004.

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2004)

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

During the years ended December 31, 2002, 2003 and 2004, the Bank incurred the following expenses and income as a result of transactions with related parties equal to or greater than UF 5,000 equivalent to approximately MCh\$87 as of December 31, 2004.

	Years ended December 31,					
	2002		2003		2004	
	Expense	Revenue	Expense	Revenue	Expense	Revenue
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Redbanc S.A.	2,295		2,494		2,807	
Empresa Nacional de Telecomunicaciones S.A.	2,709		1,898		2,290	
Operadora de Tarjetas de Crédito Nexus S.A.	1,648		1,747		2,066	
Entel Telefonía Local S.A.	117		207		280	
Depósito Central de Valores, Depósitos de Valores S.A.	199		288		260	
Compañía Nacional de Teléfonos Telefónica del Sur S.A.	104		139		251	
Banchile Cía de Seguros de Vida S.A.	161		224		242	
Entel PCS Telecomunicaciones S.A.	345		231		218	
Centro de Compensación Automatizado S.A.	131		32		135	
Asociación de Bancos e Instituciones Financieras			109		106	
Hoteles Carrera S.A.	156		141		19	
Línea Aérea Nacional Chile S.A.		107		109		108
<b>Subtotal</b>	<b>7,865</b>	<b>107</b>	<b>7,510</b>	<b>109</b>	<b>8,674</b>	<b>108</b>
<b>Transactions between 1,000 and 5,000 UF:</b>						
Services expenses	341		265		269	
Advisory			63			
Rental income				50		
<b>Subtotal</b>	<b>341</b>		<b>328</b>	<b>50</b>	<b>269</b>	

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<b>Total</b>	<b>8,206</b>	<b>107</b>	<b>7,838</b>	<b>159</b>	<b>8,943</b>	<b>108</b>
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These expense and revenue items are for services received and rendered by the Bank from related parties at market rates. Article 89 of the Chilean Corporations Law requires that the Bank's transactions with related parties be carried out on a market basis or on terms similar to those prevailing in the market.



**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****17. Fees and income from services and non-operating income and expenses**

The Bank's fees and income from services and non-operating income and expenses for the years ended December 31, 2002, 2003 and 2004 are summarized as follows:

	Years ended December 31,					
	2002		2003		2004	
	Income	Expenses	Income	Expenses	Income	Expenses
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Fees and income from services</b>						
Credit cards	12,412	(5,790)	15,053	(6,421)	18,470	(6,875)
Sight accounts and ATMs	12,282	(2,666)	15,678	(7,304)	17,570	(7,138)
Demand deposits and overdrafts	20,893		22,200		24,037	
Credit lines	5,158		5,659		6,747	
Mutual funds	13,619	(1,371)	15,029	(1,429)	20,446	(1,830)
Stock brokerage	4,162	(446)	10,160	(627)	12,858	(775)
Collection services	2,675		2,946		3,561	
Receipts and payment of services	5,891		7,358	(7)	7,970	(10)
Collection of over-due loans	6,558		8,837		8,569	
Income and revenue from goods received in lieu of payment	3,035	(1,774)	4,284	(1,796)	5,491	(1,617)
Letters of credit, guarantees, collaterals and other contingent loans	4,184		4,073		5,148	
Insurance	7,032	(738)	10,752	(1,156)	14,408	(172)
Financial advisory services	1,977		5,484		4,632	
Foreign trade and currency exchange	2,300		3,340		3,409	
Prepaid loans	1,238		2,018		3,317	
Leasing	1,727	(496)	1,678	(527)	1,625	(86)
Factoring	305	(4)	753	(3)	634	(50)
Custody and trust services	609		934		1,399	
Sales force expenses		(8,767)		(11,135)		(11,193)
Teller services expenses		(2,834)		(3,252)		(3,388)
Cobranding expenses		(3,149)		(6,095)		(3,633)
Other	2,190	(1,479)	4,282	(2,515)	6,413	(3,095)
<b>Total</b>	<b>108,247</b>	<b>(29,514)</b>	<b>140,518</b>	<b>(42,267)</b>	<b>166,704</b>	<b>(39,862)</b>

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<b>Non-operating income and expenses</b>						
Rental income		2,766		2,427		2,356
Gains on sales of assets received in lieu of payment		856		1,314		843
Recoveries of expenses		540		533		583
Income from sale of fixed assets		537		540		297
Foreign trade income		45		6		146
Leasing income		10		1		75
Dividends received		10		20		56
Indemnity of sinesters				111		1
Charge-offs		(1,347)		(2,313)		(1,327)
Provision for recovered leased assets		(235)		(1,407)		(1,454)
Charge-offs assets received in lieu of payment		(8,582)		(7,540)		(8,219)
Tax expenses from previous years						(2,247)
Write-offs for frauds				(110)		(1,063)
Delivery services of bank products		(661)		(653)		(647)
Provision and charge-offs other assets		(20)		(677)		(408)
Expenses on charge-offs for leasing		(6)		(620)		(242)
Legal contingencies provision		(995)		(151)		(182)
Reversal of adjustments and interest from previous years		(36)		(695)		(124)
Cash losses		(146)		(129)		(82)
Advertising expenses		(59)		(45)		(53)
Charge-offs and provisions related to fixed assets		(3,016)		(127)		(43)
Charge-off obsolete materials		(289)		(329)		(1)
Charge-offs of transaction in process related to the merger		(2,087)				
Amortization of negative goodwill		(11)		(55)		
Other		1,371	(3,430)	477	(1,112)	464
						(466)
<b>Total</b>		<b>6,135</b>	<b>(20,920)</b>	<b>5,429</b>	<b>(15,963)</b>	<b>4,821</b>
						<b>(16,558)</b>

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As agreed at the Shareholders Meeting, during 2003 and 2004 the Bank and its subsidiaries have paid, and charged to income, remunerations to the Directors:

Name of Director	Remunerations		Fees for attending Board meetings		Fees for attending Committees and Subsidiary Board meetings		Travel expenses and other		Total	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Segismundo Schulin-Zeuthen Serrano	83.1	115.9	39.0	40.1	157.1	153.0	19.6	5.0	298.8	314.0
Andrónico Luksic Craig	83.1	115.9	20.0	13.7			52.0	36.2	155.1	165.8
Jorge Awad Mehech	41.6	40.9	22.5	18.8	79.9	111.1			144.0	170.8
Jorge Díaz Vial	41.6	40.9	20.8	21.3	38.1	39.2	8.5	5.0	109.0	106.4
Edmundo Eluchans Urenda	41.6	40.9	18.1	19.6	37.3	46.0			97.0	106.5
Jacob Ergas Ergas	41.6	40.9	20.0	14.5	71.1	65.7			132.7	121.1
Guillermo Luksic Craig	41.6	40.9	13.0	11.9	11.2	12.8			65.8	65.6
Rodrigo Manubens Moltedo	41.6	40.9	22.5	19.6	124.6	131.7		146.1*	188.7	338.3
Gonzalo Menéndez Duque	41.6	40.9	20.0	20.4	148.2	165.4	43.1	44.7	252.9	271.4
Máximo Pacheco Matte	41.6	40.9	19.1	18.7	48.5	6.0			109.2	65.6
Francisco Pérez Mackenna	41.6	40.9	19.1	19.6	47.6	60.6			108.3	121.1
Máximo Silva Bafalluy	41.6	40.9	22.5	21.3	50.3	66.5			114.4	128.7
Manuel Sobral Fraile	41.6	37.4	22.5	18.7	61.6	69.1			125.7	125.2
Thomas Fürst Freiwrith		3.5		2.6		3.5				9.6
Other subsidiaries directors					87.9	70.0			87.9	70.0
<b>Total</b>	<b>623.8</b>	<b>681.7</b>	<b>279.1</b>	<b>260.8</b>	<b>963.4</b>	<b>1,000.6</b>	<b>123.2</b>	<b>237.0</b>	<b>1,989.5</b>	<b>2,180.1</b>

\* Includes fees for consulting agreed upon by the Board of Directors of MCh\$77.9.

**19. Loan Loss Recoveries**

	Years ended December 31,		
	2002	2003	2004
	MCh\$	MCh\$	MCh\$
Loan portfolio previously charged-off	11,591	25,228	28,359
Loans reacquired from Central Bank	743	798	5,377
<b>Total</b>	<b>12,334</b>	<b>26,026</b>	<b>33,736</b>

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

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2004)

**20. Foreign Currency Position**

The consolidated balance sheets include assets and liabilities denominated in foreign currencies, which have been translated to Chilean pesos at the Observed Exchange Rates as of December 31, 2003 and 2004 and assets and liabilities denominated in Chilean pesos but that contain repayment terms linked to changes in foreign currency exchange rates, detailed below:

	As of December 31, 2003			As of December 31, 2004		
	Payable in		Total	Payable in		Total
	Foreign	Payable in Chilean		Foreign	Payable in Chilean	
	Currency	Pesos	MCh\$	Currency	Pesos	MCh\$
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>ASSETS</b>						
Cash and due from banks	176,895		176,895	185,058		185,058
Loans	764,897	30,170	795,067	764,563	20,797	785,360
Contingent loans	210,254		210,254	221,912		221,912
Interbank loans	4,840		4,840	1,153		1,153
Financial investments	423,049	436,182	859,231	502,819	213,363	716,182
Leasing contracts		34,317	34,317		30,649	30,649
Other assets	263,093		263,093	304,406		304,406
<b>Total assets</b>	<b>1,843,028</b>	<b>500,669</b>	<b>2,343,697</b>	<b>1,979,911</b>	<b>264,809</b>	<b>2,244,720</b>
<b>LIABILITIES</b>						
Deposits	1,145,352	1,094	1,146,446	1,187,144	173	1,187,317
Contingent liabilities	211,120		211,120	223,984		223,984
Borrowings from domestic financial institutions	15,159		15,159	21,789		21,789
Foreign borrowings	735,869		735,869	595,511		595,511
Other liabilities	211,706	123	211,829	179,501	77	179,578
<b>Total liabilities</b>	<b>2,319,206</b>	<b>1,217</b>	<b>2,320,423</b>	<b>2,207,929</b>	<b>250</b>	<b>2,208,179</b>
<b>NET (LIABILITIES) ASSETS</b>	<b>(476,178)</b>	<b>499,452</b>	<b>23,274</b>	<b>(228,018)</b>	<b>264,559</b>	<b>36,541</b>



**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2004)

**21. Income Taxes**

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

As described in these accounting standards, beginning January 1, 1999, the Bank recognized the consolidated tax effects generated by the temporary differences between financial and tax values of assets and liabilities. At the same date, the net deferred tax determined was completely offset against a net complementary account. Such complementary deferred tax balances are being amortized over the estimated reversal periods corresponding to the underlying temporary differences as of January 1, 1999. The net balance to be amortized as of December 31, 2003 was MCh\$(479), and as of December 31, 2004 was MCh\$0. Deferred tax asset and liability amounts are presented on the balance sheet net of the related unamortized complementary account balances in the balance sheet. The corresponding movements and effects are as follows:

	Balance as of December 31, 2003 (1)	2004 Amortizations	2004 Deferred taxes	Balance as of December 31, 2004
	MCh\$	MCh\$	MCh\$	MCh\$
<b>Deferred tax assets</b>				
Allowances for loan losses	23,453		4,243	27,696
Obligations with repurchase agreements	42,075		(31,507)	10,568
Leasing equipment	8,517		(947)	7,570
Assets at market value	1,829		942	2,771
Personnel provisions	1,524		552	2,076
Staff vacations	1,512		153	1,665
Accrued interests and readjustments from risky loan portfolio	1,936		(844)	1,092
Accruals interest and readjustments from past due loans	807		7	814
Staff severance indemnities	680		27	707
Charge-offs from financial investment	332		(266)	66
Other adjustments	9,325		399	9,724
<b>Total</b>	<b>91,990</b>		<b>(27,241)</b>	<b>64,749</b>
Complementary account balance	(526)	526		
<b>Net assets</b>	<b>91,464</b>			<b>64,749</b>

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<b>Deferred tax liabilities</b>			
Investments with repurchase agreements	41,563	(31,153)	10,410
Depreciation and price-level restatement of fixed assets	5,307	(397)	4,910
Transitory assets	1,112	669	1,781
Other adjustments	1,260	538	1,798
	<hr/>	<hr/>	<hr/>
<b>Total</b>	49,242	(30,343)	18,899
Complementary account balance	(993)	993	
	<hr/>	<hr/>	<hr/>
<b>Net liabilities</b>	48,249		18,899
	<hr/>		<hr/>

- (1) For presentation purposes, deferred income tax balances as of December 31, 2003 are presented on a historical basis. For comparison purposes, price-level restated amounts for 2003 correspond to MCh\$ 93,751 for net deferred tax assets and MCh\$ 49,455 for net deferred tax liabilities.



**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****21. Income Taxes (continued)**

Income taxes as presented in the Consolidated Statements of Income for the years ended December 31, 2002, 2003 and 2004 are summarized as follows:

	<b>Years ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
Current income tax provision	(8,580)	(17,378)	(20,216)
Amortization of complementary accounts	2,315	1,302	(467)
Deferred tax effect for the year	8,491	1,942	3,102
Deferred taxes from previous year	2,830		
Income tax (reassessment of previous year)	(3,349)		
Non-deductible expenses Art. 21	(443)	(694)	(768)
Tax benefit related to absorption of tax losses carry forwards	(70)	578	
<b>Income taxes benefit (expense)</b>	<b>1,194</b>	<b>(14,250)</b>	<b>(18,349)</b>

**22. Commitments and contingencies***(a) Legal contingencies*

In the ordinary course of business, the Bank and its subsidiaries act as defendant or co-defendant in various litigation matters. Although there can be no assurances, the Bank's management believes, based on information currently available, that the ultimate resolution of these legal proceedings are not likely to have a material adverse effect on its results of operations, financial condition, or liquidity. The Bank has established provisions for legal contingencies in the amount of MCh\$775 and MCh\$925 as of December 31, 2003 and 2004, respectively.

*(b) Commitments*

The Bank is party to transactions with off-balance sheet risk in the normal course of its business, which exposes the Bank to credit risk in addition to amounts recognized in the consolidated financial statements. These transactions include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since a substantial portion of these commitments is expected to expire without being drawn on, the total commitment amounts do not necessarily represent actual future cash requirements of the Bank. The amounts of these loan commitments are MCh\$593,001 and MCh\$909,217 and the amounts of subscribed leasing contracts are MCh\$41,195 and MCh\$55,537 as of December 31, 2003 and 2004, respectively.

*(c) Other contingencies*

The Office of the Comptroller of the Currency (OCC) is conducting a targeted examination of the New York Branch of Banco de Chile to determine the Bank's compliance with U.S. Bank Secrecy Act and anti-money laundering requirements with respect to certain accounts of the New York Branch. The Federal Reserve Bank of Atlanta is also conducting a targeted examination with respect to certain accounts of the Bank's Miami Branch. The Bank is cooperating fully with these examinations. In connection with its examination, the OCC has designated the New York Branch to be in such a condition that it must obtain prior approval from the OCC before making new appointments of certain senior executive officers. The ongoing examinations are likely to result in additional supervisory actions by the OCC and the Federal Reserve Bank of Atlanta, which could include operating restrictions and the assessment of monetary penalties, although the extent of such actions cannot be determined at this time (see note 27 (a)).

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****23. Fiduciary Activities**

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

	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Securities held in safe custody	2,837,147	3,046,038
Amounts to be collected on behalf of domestic third parties	192,668	273,994
Amounts to be collected on behalf of foreign third parties	339,535	359,152
Administration of assets	38	
<b>Total fiduciary activities</b>	<b>3,369,388</b>	<b>3,679,184</b>

**24. Concentrations of Credit Risk**

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

*Counterparty risk*

The Bank maintains a series of deposits, investments purchased under agreements to resell, forward contract agreements and other financial instruments with institutions in the Chilean banking sector. The principal counterparties within the Chilean banking sector, excluding the Central Bank, and the Bank's related exposure to credit risk, as of December 31, 2003 and 2004 are as follows:

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	Credit Risk As of	
	December 31,	
	2003	2004
	MCh\$	MCh\$
<b>Bank</b>		
Banco Santander - Chile	25,394	17,019
Banco Bice	8,221	8,566
BBVA Banco Bhif	10,821	3,330
Banco Security	151	3,105
Banco del Estado de Chile	61,245	1,757
Banco de Crédito e Inversiones	21,432	1,568
BankBoston N.A.	330	1,192
Scotiabank Sud Americano	108	1,108
Corpbanca		856
Citibank N.A.	70	704
JP Morgan Chase Bank	364	660
ABN Amro Bank (Chile)	1,827	561
Deutsche Bank (Chile)		88
Banco Falabella		65
Banco Internacional	68	57
Banco Monex		44
Banco Ripley		38

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

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****25. Sales and Purchases of Loans**

From time to time, the Bank does sell and purchase loans based on specific requirements from customers. During the years ended December 31, 2002, 2003 and 2004, the Bank sold loans totaling MCh\$11,949, MCh\$15,668 and MCh\$64,407, respectively, however, the Bank does not originate loans for future sale. The Bank did not retain servicing or any other interest in the loans sold or retains any risks in the event of non-collection by the purchaser. During the year ended December 31, 2004, the Bank purchased loans amounting to MCh\$4,908. During prior years the Bank did not purchased loans. Any gains or losses on such transactions are recognized in results of operations at the time of the transactions.

The aggregate gains on sales of loans were MCh\$88, MCh\$ 410 and MCh\$9,924 for the years ended December 31, 2002, 2003 and 2004, respectively.

**26. Maturity of Assets and Liabilities**

The maturity dates of assets and liabilities are shown in the following table including accrued interest as of December 31, 2004.

	As of December 31, 2004					
	Due after 1			Due after 6	Total	Total
	Due within 1	but within 3	Due after			
			year	but within 3	3 years	years
year	years	6 years	years	MCh\$	MCh\$	
<b>ASSETS</b>						
Loans (1)	2,996,428	1,136,156	878,271	1,222,926	6,233,781	5,848,691
Securities (2)	1,601,449	5,731			1,607,180	1,963,896
<b>Total</b>	<b>4,597,877</b>	<b>1,141,887</b>	<b>878,271</b>	<b>1,222,926</b>	<b>7,840,961</b>	<b>7,812,587</b>

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<b>LIABILITIES</b>						
Deposit and other obligations (3)	3,296,296	224,033	1,020		3,521,349	3,344,337
Mortgage finance bonds	79,647	142,559	203,348	363,334	788,888	1,039,813
Bonds	56,013	97,076	118,537	176,193	447,819	281,182
Chilean Central Bank borrowings:						
Central Bank credit lines for renegotiations of loans	1,930				1,930	3,049
Other Central Bank borrowings	107,643				107,643	25,529
Borrowings from domestic financial institutions	26,399				26,399	51,129
Foreign borrowings	556,312	39,236			595,548	735,918
Other obligations	35,154	3,382	4,706	1,605	44,847	61,090
<b>Total</b>	<b>4,159,394</b>	<b>506,286</b>	<b>327,611</b>	<b>541,132</b>	<b>5,534,423</b>	<b>5,542,047</b>

- (1) Excludes contingent loans, overdue loans (1-89 days) and past due loans (90 days or more).
- (2) Excludes unrealized losses on permanent financial investments included in equity of MCh\$336 and MCh\$93 for the years ended December 31, 2003 and 2004 respectively. In accordance with Superintendency of Banks trading investments are classified as due within 1 year.
- (3) Excludes demand deposit accounts, saving accounts, investments sold under agreements to repurchase and contingent liabilities.

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2004)**

**27. Subsequent Events**

(a) Cease and Desist Order

Banco de Chile has agreed with the Office of the Comptroller of the Currency (OCC), and separately with the Board of Governors of the Federal Reserve System (FED), that as part of their targeted examinations being conducted on the Bank's New York and Miami branches, respectively, enforcement actions called Consent Order and Cease and Desist Order Upon Consent be issued, both effective on February 1st, 2005, by virtue of which the Bank and its respective branches have committed to take various steps set forth therein, principally in the areas of compliance with the U.S. Bank Secrecy Act and anti-money laundering laws.

(b) At the Ordinary Shareholders meeting of the Bank, held on March 17, 2005, the Board of Directors was renewed, due to the end of the legal and statutory three year period. It was also agreed to designate Alternate Directors.

The following persons were appointed as Directors for a three year term:

Directors:	Jorge Awad Mehech Serrano Fernando Cañas Berkowitz Jacob Ergas Ergas Thomas Fürst Freiwirth Andrónico Luksic Craig Guillermo Luksic Craig Rodrigo Manubens Moltedo Gonzalo Menéndez Duque Máximo Pacheco Matte Francisco Pérez Mackenna Segismundo Schulín-Zeuthen Serrano
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Alternate Directors:	Edmundo Eluchans Urenda Jorge Ergas Heymann
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After the aforesaid Ordinary Shareholders meeting, the Board of Directors agreed to make the following appointments:

Chairman of the Board:	Fernando Cañas Berkowitz
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Vice-chairman of the Board:      Andrónico Luksic Craig  
Advisers to the Board:            Jorge Díaz Vial  
  Francisco Garcés Garrido  
  Máximo Silva Bafalluy

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2004)**

**27. Subsequent Events (continued)**

- (c) At the Board Meeting No. 2596, held on March 24, 2005, it was agreed to begin the process to sell the shares acquired under the Repurchase Program approved at the Shareholders meeting held on March 20, 2003. By virtue of such repurchase program 1,701,994,590 shares equivalent to 2.50% of the issued shares, were acquired on April 26, 2004, at Ch\$31 per share, equal to 0.001839 Unidades de Fomento each.

Resolution No. 1065-03-030529 of the Chilean Central Bank, dated May 29, 2003, ordered that the Central Bank must be asked to appraise the shares acquired under the Program for the purpose of transferring the same.

On May 5, 2005, the Chilean Central Bank adopted resolution No. 1194-01-050505, in which it resolved to appraise the shares of its own common stock acquired by Banco de Chile in accordance with the aforementioned program, in Ch\$35.10, equivalent to 0.002031 Unidades de Fomento.

At the Board Meeting No. 2,599, held May 12, 2005, the Banco de Chile Board of Directors acknowledged the appraisal by the Chilean Central Bank and agreed to make a preemptive offer of 968,822,755 shares, that is, 56.92% of the shares acquired under the aforesaid Repurchase Program, to all shareholders in Banco de Chile and in Sociedad Matriz del Banco de Chile S.A. at the rate of 0.02564 of a share for each share in any series registered in the respective shareholders registries as of May 16, 2005. This preemptive offer will be valid from May 24, 2005 through June 22, 2005.

A special offering period valid for thirty days starting June 23, 2005 will be set to offer the remaining 733,171,835 Banco de Chile shares, equal to 43.08% of all shares acquired under the Repurchase Program, at the same price equivalent to 0.002031 Unidades de Fomento. This offering, corresponding to the preemptive right of purchase of the shareholder SAOS S.A., may be exercised by the shareholders of series A, B and D of Sociedad Matriz del Banco de Chile S.A.

- (d) Other:

In the opinion of Bank's Management, as of the date in which these consolidated financial statements were issued there are no other significant subsequent events that affect or that could affect the consolidated financial statements of the Bank and its subsidiaries as of December 31, 2004.

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

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

References below to SFAS are to United States Statements of Financial Accounting Standards. Pursuant to Chilean GAAP, the Bank's financial statements recognize certain effects of inflation. In addition, the Bank translates the accounting records of its branch in New York, USA, its agency in Miami, USA and its subsidiary Banchile Trade Services Limited in Hong Kong to Chilean pesos from US dollars in accordance with guidelines established by the Superintendency of Banks, which are consistent with Technical Bulletin N°64, Accounting for investments Abroad, issued by the Chilean Association of Accountants. In the opinion of the Bank, this foreign currency translation methodology forms part of the comprehensive basis of preparation of price-level adjusted financial statements required by Chilean GAAP. Inclusion of inflation and the effects of translation in the accompanying consolidated financial statements under the Chilean accounting standards in the financial statements is considered appropriate under the inflationary conditions that have historically affected the Chilean economy even though the cumulative inflation rate for the last three years does not exceed 100% and, accordingly have not been eliminated in the reconciliation to U.S. GAAP included under paragraph (s) below.

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2004)**

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

*(a) Push Down Accounting*

Under Chilean GAAP, the merger on January 1, 2002 between Banco de Chile and Banco de A. Edwards (the Predecessor Banks ) was accounted for as a pooling of interests on a prospective basis. As such, the historical financial statements for periods prior to the merger were not restated and Banco de Chile was considered to be the continuing entity for legal and accounting purposes. Under U.S. GAAP, the merger of the two banks was accounted for as a merger of entities under common control, as LQ Inversiones Financieras, a holding company beneficially owned by Quiñenco, controlled both Banco de Chile and Banco de A. Edwards since March 27, 2001.

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

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

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

the fair value of intangible assets, including brand names and long-term customer-relationship intangible (core deposit intangibles);

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the fair values of loans, excluding any adjustments in the acquiree's historical allowance for loan losses or other contingent liabilities;

the accounting for staff severance liabilities;

the fair value of bank premises and equipment and other

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**Chilean pesos as of December 31, 2004)**

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

*(a) Push Down Accounting (continued)*

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

*(b) Acquisition of Banco de A. Edwards*

Under U.S. GAAP, to the extent that the Predecessor Banks were under common control, the assets and liabilities of Banco de A. Edwards were transferred into Banco de Chile using the U.S. GAAP carrying values of such assets and liabilities included in the records of the common parent. However, as Quiñenco only owned 51.18% of Banco de A. Edwards at the time of the merger, to the extent that the minority interest of Banco de A. Edwards was acquired through the issuance of Banco de Chile shares, Banco de Chile was considered the acquirer.

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

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

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

	MCh\$
Net book value of Banco de A. Edwards	124,610
Incremental fair value of identified intangible assets (1)(2)	32,245
Fair value decrement of identified net assets acquired	(46,497)
Fair value of Banco de A. Edwards	110,358
Purchase price	
Market value of Banco de Chile shares issued	(302,572)
Direct costs of acquisition	(1,216)
Goodwill	(193,430)

- (1) Core deposit intangibles resulting from the acquisition amounted to MCh\$28,715 and is being amortized over the estimated run-off period by product of the acquired customer base at the date of purchase.
- (2) Brand name intangibles resulting from the acquisition amounted to MCh\$3,530 and is being amortized over 10 years.

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

	<b>As of January 1, 2002</b>
	<b>MCh\$</b>
Cash and due from banks	126,979
Financial investments	187,612
Loans, net	1,088,046
Intangibles	32,245
Other	87,150
<b>Total assets acquired</b>	<b>1,522,032</b>
Deposits	862,991
Other interest bearing liabilities	473,468
Other liabilities	75,215
<b>Total liabilities assumed</b>	<b>1,411,674</b>
<b>Net assets acquired</b>	<b>110,358</b>

Of the MCh\$32,245 of acquired intangible assets, MCh\$28,715 was assigned to core deposits subject to amortization (using an estimated rate that the bank's customers are expected to leave the bank in future years, based on a historical analyses performed by the Bank), and MCh\$3,530 has been assigned to a registered trademark that is being amortized over a 10 year useful life.

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

*(c) Amortization of Goodwill and Intangible Assets*

The Bank adopted Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangible Assets*, ( SFAS 142 ) as of January 1, 2002. SFAS 142 applies to all goodwill and identified intangible assets acquired in a business combination. Under this standard, beginning January 1, 2002, all goodwill, including that acquired before initial application of the standard, and indefinite-lived intangible assets are not amortized, but must be tested for impairment at least annually.

The Bank has performed the annual impairment test of goodwill required by the standard, which did not result in any impairment. Under Chilean GAAP, the Bank does not present any goodwill as of December 31, 2004. Under U.S. GAAP, the carrying value of goodwill, net of accumulated amortization, related to the push-down of goodwill from Quiñenco and the acquisitions of Banco de A. Edwards and Leasing Andino, described in paragraphs (a), (b) and (p) to this note, respectively, were MCh\$370,542, MCh\$193,430 and MCh\$1,919, respectively.

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

<b>Business Segments</b>	<b>MCh\$</b>
Large Corporate	212,276
Middle Market	120,919
Retail Banking	158,281
International Banking	39,987
Treasury	10,891
Subsidiaries	23,537
<b>Total goodwill</b>	<b>565,891</b>



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

*(d) Loan Origination Commissions and Fees*

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

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

The effect of accounting for net loan origination fees in accordance with U.S. GAAP is included in the reconciliation of consolidated net income and shareholders' equity in paragraph (s) below.

*(e) Deferred Income taxes*

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

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

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Under Statement of Financial Accounting Standard No. 109, Accounting for Income Taxes, income taxes are recognized using the liability method in a manner similar to Chilean GAAP. The effects of recording deferred income taxes and the elimination of the complementary assets and liabilities and their respective amortization are included in the reconciliation of consolidated net income and shareholders' equity in paragraph (s) below.

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

*(f) Investments in other companies*

As shown in Note 9, certain long-term investments of less than 20% of the outstanding shares in other companies have been recorded using the equity method of accounting. Under U.S. GAAP these investments would generally be accounted for at cost less any non-temporary impairment in value. The effect of recording these assets in accordance with U.S. GAAP is included in the reconciliation of consolidated net income and shareholders' equity in paragraph (s) below.

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

*(g) Repurchase agreements*

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

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

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

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

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

*(i) Contingent assets and liabilities*

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Under Chilean GAAP the Bank recognizes rights and obligations with respect to contingent loans as contingent assets and liabilities. Under U.S. GAAP, such contingent amounts are not recognized on the balance sheet. If U.S. GAAP had been followed, the total assets and liabilities of the Bank would have been lower by MCh\$419,879 and MCh\$530,901 as of December 31, 2003 and 2004, respectively. This reclassification is included in the Article 9 consolidated financial statements in paragraph (u) below.

Within contingent assets and liabilities the Bank includes financial guarantees. For guarantees, in accordance to FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Under Chilean GAAP, the Bank recognizes a liability which approximates fair value of the obligation related to guarantees. The required FIN 45 disclosures have been incorporated into paragraph (ab), below.

### *(j) Allowance for loan losses*

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

#### 1) Allowance for loan losses

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

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

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

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

Allowances for commercial loans and leasing operations classified in loan risk category A1, A2, A3 and B (A and B under regulations in effect until January 1, 2004), which were not considered impaired under Statement of Financial Accounting Standard No. 114, Accounting by Creditors for Impairment of a Loan ( SFAS No. 114 ), were analyzed and adjusted, if necessary, to reflect the estimated losses not identified based on individual credit analysis. The estimations were performed using historical loan data, in order to estimate the inherent losses in the Bank's loan portfolio, using patterns and trends based upon historical changes in loan classifications ( migration analysis ).

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

- i) Commercial loans and leasing operations greater than UF 5,000 (approximately MCh\$87), which were considered impaired in accordance with the criteria established by SFAS No. 114, were valued at the present value of the expected future cash flows discounted at the loan's effective contractual interest rate, or at market rates in the case of those loans that were considered to be collateral dependent.
- ii) Allowances for commercial loans and leasing operations which were under UF 5,000 (approximately MCh\$87) (i.e. those loans which were not considered in the above SFAS No. 114 analysis), were calculated using the weighted average loan provision, by loan classification, as determined in i).
- iii) Allowance for loan losses for mortgage and consumer loans were determined based on historical loan charge-offs, after considering the recoverability of the underlying collateral.

Based on the preceding estimation process the Bank computed its allowance for loan losses under U.S. GAAP, and compared this estimate with the reported allowance determined in accordance with the guidelines established by the Superintendency of Banks. The additional loan loss allowance (voluntary allowances under previous regulations) was deducted from the reserve requirements under U.S. GAAP to arrive at a cumulative U.S. GAAP adjustment, as follows:

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	As of December 31,	
	2003	2004
	MCh\$	MCh\$
U.S. GAAP loan loss reserve	154,242	115,789
Less: Chilean GAAP loan loss allowance as required by the Superintendency of Banks (1)	(162,867)	(153,742)
Chilean GAAP voluntary loan loss allowance	(21,071)	
<b>U.S. GAAP adjustment</b>	<b>(29,696)</b>	<b>(37,953)</b>

(1) A reclassification of MCh\$(63) was made to the 2003 Chilean GAAP amounts in order to conform with the 2004 presentation.

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

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## 2) Recognition of income

As of December 31, 2002, 2003 and 2004 the recorded investment in loans for which impairment had been recognized in accordance with SFAS No.114 totaled MCh\$426,551, MCh\$331,087 and MCh\$400,288, respectively, with a corresponding valuation allowance of MCh\$165,635 MCh\$125,431 and MCh\$94,376, respectively. For the years ended December 31, 2002, 2003 and 2004 the average recorded investment in impaired loans was MCh\$407,725, MCh\$350,523 and MCh\$504,604, respectively. For the years ended December 31, 2004, the Bank recognized interest on impaired loans MCh\$ 39,001 (information related to prior periods is not available). Comparative information for the year ended December 31, 2002 is not available. The Bank recognizes interest on impaired loans on an accrual basis, except for past due loans for which the Bank recognizes interest on a cash basis, as described in paragraph (h) above. As of December 31, 2003 and 2004, the Bank had made provisions against all loans which it considered to be impaired.

## 3) Loan loss recoveries

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

The following presents an analysis under U.S. GAAP of the changes in the allowance for loan losses during the periods presented.

	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
Allowance for loan losses in accordance with U.S. GAAP, as of January 1,	200,255	201,474	154,242
Price-level restatement (1)	(6,660)	(2,817)	(4,608)
Charge-offs	(114,856)	(98,535)	(99,100)

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Loan loss recoveries	12,334	26,026	33,736
Allowances for loan losses established	135,747	29,585	33,076
Allowances for loan losses released	(25,346)	(1,491)	(1,557)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Balances as of December 31,</b>	<b>201,474</b>	<b>154,242</b>	<b>115,789</b>
	<b>_____</b>	<b>_____</b>	<b>_____</b>

(1) Reflects the effect of inflation and exchange rate changes of branches abroad on the allowance for loan losses under Chilean GAAP at the beginning of each period, adjusted to constant pesos of December 31, 2004.

4) Charge-offs

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

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

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

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



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

*(k) Mortgage Finance Bonds Issued by the Bank*

Effective October 31, 2002 the Bank modified its accounting treatment of financial investments in mortgage finance bonds issued by the Bank in accordance with the instructions of the Superintendency of Banks, reducing from assets the amount recorded for mortgage finance bonds issued by the Bank, including a market value adjustment, and from liabilities, the respective mortgage finance bond obligation. Under U.S. GAAP, this accounting treatment would have been consistently applied.

The effects of this difference between Chilean and U.S. GAAP have been included in the reconciliation to U.S. GAAP in paragraph (s) below.

*(l) Investment securities*

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

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

Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost.

Debt and equity securities that are bought and held by the Bank, principally for the purpose of selling them in the near term, are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.

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Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

Consequently, investments classified as permanent under Chilean GAAP are considered to be available-for-sale and all other investments are considered to be trading, with the exception of certain investments, maintained by the Bank's branches in the United States of America, which are classified as held-to-maturity.

Under Chilean GAAP, securities maintained by the Bank's branches abroad classified as held-to-maturity are stated at fair market value. Under U.S. GAAP, held-to-maturity investments are stated at amortized cost. The effect of eliminating the market value adjustment for these investments is included in the reconciliation of consolidated net income and shareholders' equity in paragraph (s) below.

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

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(1) Under Chilean GAAP, the unrealized holdings gains (losses) related to investments classified as permanent have been included in Shareholders' equity, which does not differ from the treatment of available-for-sale investments under U.S. GAAP.

The following are required disclosures for investments classified as available-for-sale in accordance with SFAS N°115 and the presentation requirements of Article 9 (see paragraph (u) below), and have been prepared using amounts determined in accordance with U.S. GAAP.

Realized gains and losses are determined using the proceeds from sales less the cost of the investment identified to be sold. Gross gains and losses realized on the sale of available-for-sale securities for the year ended December 31, 2002, 2003 and 2004 are as follows:

	Years ended December 31,		
	2002	2003	2004
	MCh\$	MCh\$	MCh\$
Proceeds on sale of investments resulting in gains	71,293	11,352	1,444
Realized gains	1,542	5,578	26
Proceeds on sale of investments resulting in losses	58,106	3,465	
Realized losses	2,071	150	

The carrying value and market value of securities available-for-sale as of December 31, 2003 and 2004 are as follows:

	Years ended December 31,	
	2003	2004

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Available-for-sale Instruments:	Carrying Value	Gross Unrealized	Gross Unrealized	Estimated Fair Value	Carrying Value	Gross Unrealized	Gross Unrealized	Estimated Fair Value
		Gains	(Losses)			Gains	(Losses)	
		MCh\$	MCh\$			MCh\$	MCh\$	
Foreign private sector debt securities					9,585			9,585
U.S. Government debt securities	12,251	4		12,255	11,182	2		11,184
Credit linked investments								
Chilean private sector debt securities	8,852	328		9,180	6,455	93		6,548
<b>Total</b>	<b>21,103</b>	<b>332</b>		<b>21,435</b>	<b>27,222</b>	<b>95</b>		<b>27,317</b>

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

Available-for-sale Instruments:	As of December 31, 2004			
	Within one year	After one year	After five years	Total
		but within five	but within 10	
		years	years	
MCh\$	MCh\$	MCh\$	MCh\$	
U.S. Government debt securities	11,184			11,184
Chilean private sector debt securities	4,731	1,817		6,548
Foreign private sector debt securities	5,606	3,979		9,585
<b>Estimated fair value</b>	<b>21,521</b>	<b>5,796</b>		<b>27,317</b>

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## BANCO DE CHILE AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Chilean pesos as of December 31, 2004)

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

(1) Investment securities (continued)

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

	Years ended December 31,					
	2003			2004		
	Amortized Cost	Unrealized Gains	Estimated Fair Value	Amortized Cost	Unrealized Losses	Estimated Fair Value
MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
<b>Held-to-maturity Instruments:</b>						
U.S. Government debt securities	21,542	4	21,546	16,819	(2)	16,817
<b>Total</b>	<b>21,542</b>	<b>4</b>	<b>21,546</b>	<b>16,819</b>	<b>(2)</b>	<b>16,817</b>

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

As of December 31, 2004			
Within one year	After one year but within five years	After five years	Total
MCh\$	MCh\$	MCh\$	MCh\$

<b>Held-to-maturity Instruments:</b>				
U.S. Government debt securities	16,817			16,817
<b>Estimated fair value</b>	<b>16,817</b>			<b>16,817</b>

(3) Under U.S. GAAP, the Bank is required to disclose the amounts of unrealized holding gains and losses included in income on securities classified as trading. For the years ended December 31, 2002, 2003 and 2004, the Bank recognized in income unrealized holding gains (losses) of MCh\$11,123 MCh\$(10,483) and MCh\$(675) respectively, on these securities.

The Bank evaluates all securities for declines in value that are considered other than temporary ( permanent impairment ). The Bank will charge-off to earnings any amounts which are deemed to be a permanent impairment of the value of that security.

*(m) Derivatives*

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

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

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2004)**

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

*(m) Derivatives (continued)*

As explained in Note 1 (e), under Chilean GAAP the Bank accounts for forward contracts between foreign currencies and U.S. dollars and forwards contracts between the U.S. dollar and the Chilean peso or the U.F. are valued at the closing spot exchange rate of each balance sheet date, with the initial discount or premium being amortized over the life of the contract in accordance with Chilean hedge accounting criteria. The losses recognized in income associated with these contracts for the years ended December 31, 2002, 2003 and 2004 were MCh\$25,186, MCh\$36,270 and MCh\$23,265, respectively. The Bank's interest rate swap agreements are treated as off-balance-sheet financial instruments and the net interest effect, which corresponds to the difference between interest income and interest expense arising from such agreements, is recorded in net income in the period that such differences originate, except for interest rate and cross currency swaps designated as a hedge of the foreign investment portfolio, which are recorded at their estimated fair market values.

Under U.S. GAAP, the Bank applies SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No.138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (collectively *SFAS 133*), which established comprehensive accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. The Standard required that all derivative instruments be recorded in the balance sheet at fair value. However, the accounting for changes in fair value of the derivative instrument depends on whether the derivative instrument qualifies as a hedge. The standards also require formal documentation procedures for hedging relationships and effectiveness testing when hedge accounting is to be applied. If the derivative instrument does not qualify as a hedge, changes in fair value are reported in earnings when they occur. If the derivative instrument qualifies as a hedge, the accounting treatment varies based on the type of risk being hedged.

Under U.S. GAAP, the Bank records its entire portfolio of swap agreements at their estimated fair value and forward contracts between the U.S. dollar and the Chilean peso or UF at the fair value based on the forward exchange rate.

While the Bank enters into derivatives for the purpose of mitigating its global interest and foreign currency risks, these operations do not meet the strict documentation requirements to qualify for hedge accounting under U.S. GAAP, except for certain swaps and option contracts which at December 31, 2004 had been designated by the Bank's U.S. branches as fair value hedges. At December 31, 2003, the branches abroad did not designate any derivatives as hedges. Changes in the fair values of all derivative instruments are reported in earnings when they occur.

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

The effects of the differences in accounting for derivative instruments between Chilean and U.S. GAAP on the consolidated net income and shareholders' equity of the Bank are included in paragraph (s) below.

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2004)**

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

*(n) Mandatory dividend*

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

Since the payment of these dividends is a legal requirement in Chile, an accrual for U.S. GAAP purposes is made to recognize the corresponding decrease in equity at each balance sheet date. The Bank's liabilities would have been greater by MCh\$40,145 and MCh\$45,788 as of December 31, 2003 and 2004, respectively, under U.S. GAAP. The effects of these adjustments on the shareholders' equity of the Bank are included in paragraph (s) below.

*(o) Assets received in lieu of payment*

Under Chilean GAAP, assets received in lieu of payment are carried at cost and have been restated for price-level changes, less a global valuation allowance if the total of the market value of those assets is lower than the carrying amount. Market value is determined based on appraiser valuations, as required by the Superintendency of Banks. If the asset is not sold within one year, then recorded asset amounts must be written-off on at least a straight-line basis over the following 12-month period.

Under U.S. GAAP, assets received in lieu of payment are initially recorded at fair value less any estimated costs to sell at the date of foreclosure, on an individual asset basis. The effect of recording these assets in accordance with U.S. GAAP is included in the reconciliation of consolidated net income and shareholders' equity in paragraph (s) below.

*(p) Acquisition of Leasing Andino*

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On April 23, 1999, the Bank and its subsidiary Banchile Asesorías Financieras S.A. acquired the remaining 35% of shares of Leasing Andino that it did not already own from Orix Corporation for MCh\$14,262. Under Chilean GAAP, the Bank recorded goodwill in the amount of MCh\$1,254 based on the differences between the investment purchase price and the amount of the underlying equity in the carrying value of the investee's net assets. As permitted by Chilean GAAP, goodwill can be amortized on an accelerated basis to the extent of the Bank's net income. Accordingly the Bank completely amortized the goodwill recorded as a result of this transaction during the year ended December 31, 1999.

Under U.S. GAAP, the difference between the cost of an investment and the amount of underlying equity in net assets is allocated to the underlying assets and liabilities based on their respective fair values at the time of the acquisition. Any excess of the cost of the investment over such fair value is treated as goodwill.

The effect of the differences in purchase accounting and the amortization of goodwill is included in the reconciliation of consolidated net income and shareholders' equity in paragraph (s) below.

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

*(q) Staff severance indemnities*

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

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

*(r) Merger expenses*

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

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

	Years ended December 31,			
	2002	2003	2004	2004
	MCh\$	MCh\$	MCh\$	ThUS\$
<b>Net income in accordance with Chilean GAAP</b>	<b>54,490</b>	<b>133,817</b>	<b>152,628</b>	<b>272,633</b>
<b>U.S. GAAP adjustments:</b>				
Push Down accounting (Note 28(a))				
Fair value of intangibles	(15,152)	(13,249)	(12,110)	(21,632)
Fair value of loans	(1,345)	(1,273)	(1,502)	(2,683)
Fair value of staff severance indemnities	4,410			
Fair value of premises	(229)	(229)	(227)	(405)
Fair value of other	(59)	18	(74)	(132)
Acquisition of Banco Edwards (Note 28(b))				
Fair value of intangibles	(6,164)	(4,737)	(3,803)	(6,793)
Fair value of loans	11,727	1,131	800	1,429
Fair value of other interest bearing liabilities	12,819	4,468	4,324	7,724
Fair value of deposits	(28,533)	(243)	(25)	(45)
Fair value of premises	(9)	(9)	(9)	(16)
Fair value of other	244	85	82	146
Loan origination commissions and fees (Note 28 (d))	(1,052)	(479)		
Investments in other companies (Note 28 (f))	(329)	100	25	45
Deferred income taxes (Note 28 (e))	(2,411)	(1,311)	480	857
Allowance for loan losses (Note 28 (j))	(18,491)	7,492	8,258	14,750
Mortgage finance bonds (Note 28 (k))	(1,834)	1,965		
Derivatives (Note 28 (m))	8,866	3,516	(1,201)	(2,145)
Held-to-Maturity investments (Note 28 (l))	(7,559)	10	4	7
Assets received in lieu of payment (Note 28 (o))	(1,782)	391	1,023	1,828
Staff severance indemnities (Note 28(q))	4,608	125	193	345
Deferred tax effect of the above U.S. GAAP adjustments (Note 28 (e))	6,613	2,070	(1,954)	(3,491)
Merger expenses (Note 28 (r))	(1,276)			

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<b>Net income in accordance with U.S. GAAP</b>	<b>17,552</b>	<b>133,658</b>	<b>146,912</b>	<b>262,422</b>
<b>Other comprehensive income, net of tax (Note 28(w))</b>	<b>9,670</b>	<b>(6,454)</b>	<b>(2,441)</b>	<b>(4,361)</b>
Unrealized holding gains (losses) on available-for-sale securities, net of tax	7,884	(2,686)	(190)	(340)
Adjustment for translation differences	1,786	(3,768)	(2,251)	(4,021)
<b>Comprehensive income in accordance with U.S. GAAP</b>	<b>27,222</b>	<b>127,204</b>	<b>144,471</b>	<b>258,061</b>

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(s) Summary of Income Statement and Shareholders' Equity differences (continued)*

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

	Years ended December 31,		
	2003	2004	2004
	MCh\$	MCh\$	ThUS\$
<b>Shareholders' Equity in accordance with Chilean GAAP</b>	<b>713,068</b>	<b>674,533</b>	<b>1,204,889</b>
<b>U.S. GAAP adjustments:</b>			
Push Down accounting (Note 28(a))			
Goodwill	389,785	389,785	696,256
Goodwill accumulated amortization (Note 28(c))	(19,243)	(19,243)	(34,373)
Fair value of intangibles	177,523	177,523	317,102
Amortization of fair value of intangibles	(42,341)	(54,451)	(97,263)
Fair value of loans	3,041	1,539	2,749
Fair value of premises	11,352	11,352	20,278
Amortization of fair value of premise	(629)	(856)	(1,529)
Fair value of other	200	126	225
Acquisition of Banco Edwards (Note 28 (b))			
Goodwill	193,430	193,430	345,516
Fair value of intangibles	32,245	32,245	57,598
Amortization of fair value of intangibles	(10,901)	(14,704)	(26,265)
Fair value of loans	(5,264)	(4,464)	(7,974)
Fair value of other interest bearing liabilities	(38,909)	(34,585)	(61,778)
Fair value of deposits	25		
Fair value of premises	88	88	157
Amortization of fair value of premises	(18)	(27)	(48)
Fair value of other	(741)	(659)	(1,177)
Investments in other companies (Note 28 (f))	516	540	965
Deferred income taxes (Note 28 (e))	(480)		
Allowance for loan losses (Note 28 (j))	29,696	37,953	67,793
Derivatives (Note 28 (m))	7,278	6,076	10,854

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Held-to-Maturity investments (Note 28 (l))	(4)	6	11
Assets received in lieu of payment (Note 28 (o))	1,020	2,043	3,650
Minimum Dividend (Note 28 (n))	(40,145)	(45,788)	(81,789)
Goodwill Leasing Andino Acquisition (Note 28 (p))	1,919	1,919	3,428
Staff severance indemnities (Note 28 (q))	(3,858)	(3,664)	(6,544)
Deferred tax effect of the above U.S. GAAP adjustments (Note 28 (e))	(24,487)	(26,442)	(47,232)
<b>Shareholders Equity in accordance with U.S. GAAP</b>	<b>1,374,166</b>	<b>1,324,275</b>	<b>2,365,499</b>

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The following summarizes the changes in shareholders' equity under U.S. GAAP during the years ended December 31, 2003 and 2004:

	Years ended December 31,		
	2003	2004	2004
	MCh\$	MCh\$	ThUS\$
Balance as of January 1,	1,325,079	1,374,166	2,454,614
Dividends paid	(54,320)	(134,374)	(240,024)
Mandatory dividends, previous date	16,348	40,145	71,710
Mandatory dividends, closing date	(40,145)	(45,788)	(81,789)
Unrealized gains on Available-for-sale investments, net of taxes	(2,686)	(190)	(340)
Common stock repurchased		(54,345)	(97,073)
Cumulative translation adjustment	(3,768)	(2,251)	(4,021)
Net income in accordance with U.S. GAAP	133,658	146,912	262,422
<b>Balance as of December 31,</b>	<b>1,374,166</b>	<b>1,324,275</b>	<b>2,365,499</b>

*(t) Net income per share*

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

Years Ended December 31,



	2002	2003	2004
	Ch\$	Ch\$	Ch\$
<b>Chilean GAAP(1)</b>			
Earnings per share	0.80	1.97	2.28
Weighted average number of total shares outstanding (in millions)	68,079.8	68,079.8	66,932.7
<b>U.S. GAAP(1)</b>			
Earnings per share	0.26	1.96	2.19
Weighted average number of total shares outstanding (in millions)	68,079.8	68,079.8	66,932.7

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

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**Chilean pesos as of December 31, 2004)**

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

*(u) Article 9 Presentation of Income Statements and Balance Sheets*

The presentation of the consolidated financial statements differs significantly from the format required by the Securities and Exchange Commission under Rules 210.9 to 210.9-07 of Regulation S-X ( Article 9 ). The following financial statements are presented in constant Chilean pesos of December 31, 2004 and are presented in a format that complies with the requirements of Article 9 of Regulation S-X. The Income Statements presented for the years ended December 31, 2002, 2003 and 2004 disclose the Bank's U.S. GAAP income statements in a format that complies with the requirements of Article 9 of regulation S-X.

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

1. Elimination of contingent assets and liabilities from the balance sheet.
2. Presentation of recoveries of loans previously charged-off as a reduction of the provision for loan losses instead of as other income.
3. Reclassification of fees relating to contingent loans from interest income under Chilean GAAP to other income under Article 9.
4. Elimination of the cash clearing account from cash and due from banks.(1)
5. Presentation of forward contracts classified based on legal right to offset.
6. Reclassification of assets under lease from Other assets under Chilean GAAP to Bank premises and equipment under Article 9.
7. Inclusion of adjustments to U.S. GAAP described in Note 28(s).

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(1) In accordance with regulations issued by the Superintendency of Banks, Chilean banks include under the caption Cash and due from banks amounts related to checks from other banks that have been deposited in their clients' checking accounts that are pending settlement. As no

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cash is involved in the transaction, these amounts should not be recorded under U.S. GAAP until the cash is received, which normally occurs the following business day.

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The following income statements presented for the years ended December 31, 2002, 2003 and 2004 have been prepared in accordance with U.S. GAAP to disclose the Bank's consolidated income statement in accordance with the requirements of Article 9:

	<b>Years ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
<i>Income Statements</i>			
<b>INTEREST INCOME:</b>			
Interest and fees on loans	597,722	481,351	518,571
Interest on investments	134,579	(19,767)	39,443
Interest on deposits with banks	4,058	1,866	2,362
Interest under agreements to resell	246	101	10,989
<b>Total interest income</b>	<b>736,605</b>	<b>463,551</b>	<b>571,365</b>
<b>INTEREST EXPENSE:</b>			
Interest on deposits	(156,065)	(89,006)	(88,891)
Interest on investments sold under agreements to purchase	(12,921)	(8,913)	(7,811)
Interest on short-term debt	(33,199)	(9,597)	(112,693)
Interest on long-term debt	(143,030)	(97,598)	(1,206)
Price-level restatement (1)	(9,934)	(4,137)	(7,466)
<b>Total interest expense</b>	<b>(355,149)</b>	<b>(209,251)</b>	<b>(218,067)</b>
<b>Net interest income</b>	<b>381,456</b>	<b>254,300</b>	<b>353,298</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>(110,348)</b>	<b>(28,094)</b>	<b>(31,519)</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>271,108</b>	<b>226,206</b>	<b>321,779</b>

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<b>OTHER INCOME:</b>			
Fees and commissions	61,505	73,500	98,148
Brokerage and securities income net gain (losses) on trading activities	876	11,039	(4,266)
Net gains (losses) on foreign exchange	(32,780)	93,338	17,660
Other revenue	6,135	5,819	6,305
	<u>35,736</u>	<u>183,696</u>	<u>117,847</u>
<b>OTHER EXPENSES:</b>			
Salaries	(138,829)	(128,329)	(136,599)
Net premises and equipment expenses	(29,734)	(24,090)	(23,293)
Administration expenses	(79,438)	(75,252)	(80,453)
Other expenses	(46,687)	(35,080)	(32,545)
Minority interest	(1)	(2)	(1)
	<u>(294,689)</u>	<u>(262,753)</u>	<u>(272,891)</u>
<b>INCOME BEFORE INCOME TAXES</b>	<b>12,155</b>	<b>147,149</b>	<b>166,735</b>
<b>INCOME TAXES</b>	<b>5,397</b>	<b>(13,491)</b>	<b>(19,823)</b>
	<u>17,552</u>	<u>133,658</u>	<u>146,912</u>
<b>NET INCOME FOR THE YEAR</b>	<b>17,552</b>	<b>133,658</b>	<b>146,912</b>

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

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

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The following balance sheets presented as of December 31, 2003 and 2004 have been prepared in accordance with U.S. GAAP to disclose the Bank's consolidated balance sheets in accordance with the requirements of Article 9:

*Balance Sheets*

	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>ASSETS</b>		
Cash and due from banks	413,702	571,584
Term Federal Funds	73,732	55,995
Interest bearing deposits in other banks	188,300	38,835
Investments under agreements to resell	30,402	26,310
Trading investments	1,628,817	1,442,004
Available-for-sale investments	21,435	27,317
Held-to-maturity investments	21,542	16,819
	<b>2,377,930</b>	<b>2,178,864</b>
Subtotal		
Loans	6,101,656	6,472,466
Unearned income	(66,557)	(65,411)
Allowance for loan losses	(154,242)	(115,789)
	<b>5,880,857</b>	<b>6,291,266</b>
Loans, net		
Premises and equipment, net	167,705	170,070
Goodwill	565,890	565,890
Other assets	445,218	417,685

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<b>TOTAL ASSETS</b>	<b>9,437,600</b>	<b>9,623,775</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing	1,474,056	1,803,013
Interest bearing	3,508,074	3,663,682
Total deposits	<b>4,982,130</b>	<b>5,466,695</b>
Short-term borrowings	401,337	508,536
Investments sold under agreements to repurchase	437,410	349,086
Other liabilities	407,269	436,060
Long-term debt	1,835,283	1,539,122
<b>TOTAL LIABILITIES</b>	<b>8,063,429</b>	<b>8,299,499</b>
Minority interest	5	1
Shareholders' equity:		
Common stock	494,567	494,567
Other Shareholders' equity	879,599	829,708
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,374,166</b>	<b>1,324,275</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>9,437,600</b>	<b>9,623,775</b>

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## BANCO DE CHILE AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2004)

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

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

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

	As of December 31,	
	2003	2004
	MCh\$	MCh\$
Total assets of Bank under Chilean GAAP	9,481,150	9,649,203
Elimination of assets offset by liabilities:		
Cash clearing account	(464,553)	(319,033)
Contingent loans	(419,879)	(530,901)
Reclassification of forward contracts	69,783	67,078
U.S. GAAP adjustments, net	771,099	757,428
<b>Total assets as per Article 9 presentation</b>	<b>9,437,600</b>	<b>9,623,775</b>

*(v) Income taxes*

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

Years ended December 31,		
2002	2003	2004



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	<u>MCh\$</u>	<u>MCh\$</u>	<u>MCh\$</u>
Benefit (charge) for the period under Chilean GAAP	1,194	(14,250)	(18,349)
U.S. GAAP Adjustments:			
Deferred tax effect of applying SFAS No. 109	(2,411)	(1,311)	480
Deferred tax effect of U.S. GAAP adjustments	6,614	2,070	(1,954)
	<u>5,397</u>	<u>(13,491)</u>	<u>(19,823)</u>
<b>Benefit (charge) for the period under U.S. GAAP</b>	<b>5,397</b>	<b>(13,491)</b>	<b>(19,823)</b>

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## BANCO DE CHILE AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2004)

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

(v) Income taxes (continued)

Deferred tax assets (liabilities) are summarized as follows:

	As of December 31,	
	2003	2004
	MCh\$	MCh\$
<b>Deferred Tax Assets:</b>		
Leasing equipment	8,730	7,570
Obligations with repurchase agreement	43,127	10,568
Allowance for loan losses	18,991	21,244
Charge-offs from financial investment	340	66
Accrued interests and readjustments from risky loan portfolio	1,984	1,092
Staff vacations	1,550	1,665
Accruals interest and readjustments from past due loans	827	814
Personnel provisions	1,562	2,076
Assets at market value	1,876	2,771
Staff severance indemnities	1,353	1,330
Other adjustments	8,965	8,343
Deferred income taxes related to purchase accounting of Banco de A. Edwards	5,853	3,758
<b>Total Deferred Tax Assets</b>	<b>95,158</b>	<b>61,297</b>
<b>Deferred Tax Liabilities:</b>		
Investments with repurchase agreement	42,602	10,410
Depreciation and price-level restatement of bank premises and equipment	5,440	4,910
Transitory assets	1,140	1,781
Deferred income taxes related to push down accounting adjustments	25,357	22,990
Other adjustments	1,291	1,798
<b>Total Deferred Tax Liabilities</b>	<b>75,830</b>	<b>41,889</b>

<b>NET DEFERRED TAX ASSETS</b>	<b>19,328</b>	<b>19,408</b>
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## BANCO DE CHILE AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2004)

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

*(v) Income taxes (continued)*

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

	Years ended December 31,		
	2002	2003	2004
	MCh\$	MCh\$	MCh\$
Chilean taxes due at the applicable statutory rate (1)	2,136	24,280	28,346
Increase (decrease) in rates resulting from:			
Non-deductible expenses	2,140	3,404	4,929
Non-taxable income	(3,649)	(12,624)	(15,527)
Effect on tax and financial equity restatement (2)	(1,235)	(410)	(1,570)
Effect of income tax rate change on net deferred tax assets	(2,143)	(566)	
Other	(2,646)	(593)	3,645
<b>At effective tax rate</b>	<b>(5,397)</b>	<b>13,491</b>	<b>19,823</b>

(1) The Chilean statutory first category (corporate) income tax rate was 16% for 2002, 16.5% for 2003 and 17% for 2004.

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

*(w) Comprehensive Income*

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

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income is the total net income and other non-owner equity transactions that result in changes in net equity.

The following represents accumulated other comprehensive income balance, net of tax, for the years ended December 31, 2002, 2003 and 2004:

	Year ended December 31, 2004		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
	MCh\$	MCh\$	MCh\$
Beginning balance	2,223	(918)	1,305
Price-level restatement (1)	(17)	3	(14)
Unrealized gains on securities available for sale:			
Unrealized gains arising during the period	(255)	43	(212)
Less: reclassification adjustment for gains included in income	26	(4)	22
Net unrealized gains	(229)	39	(190)
Adjustment for translation differences	(2,251)		(2,251)
Ending balance	<b>(274)</b>	<b>(876)</b>	<b>(1,150)</b>

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(w) Comprehensive Income (continued)*

	Year ended December 31, 2003		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
	MCh\$	MCh\$	MCh\$
Beginning balance	9,321	(1,484)	7,837
Price-level restatement (1)	(94)	16	(78)
Unrealized losses on securities available for sale:			
Unrealized losses arising during the period	(8,664)	1,473	(7,191)
Less: reclassification adjustment for losses included in net income	5,428	(923)	4,505
Net unrealized losses	(3,236)	550	(2,686)
Adjustment for translation differences	(3,768)		(3,768)
Ending balance	<b>2,223</b>	<b>(918)</b>	<b>1,305</b>

	Year ended December 31, 2002		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
	MCh\$	MCh\$	MCh\$
Beginning balance	(2,256)	368	(1,888)
Price-level restatement (1)	65	(10)	55
Unrealized losses on securities available for sale:			
Unrealized losses arising during the period	9,915	(1,587)	8,328
Less: reclassification adjustment for losses included in net income	(529)	85	(444)

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Net unrealized losses	9,386	(1,502)	7,884
Adjustment for translation differences	2,126	(340)	1,786
	<u>          </u>	<u>          </u>	<u>          </u>
Ending balance	<b>9,321</b>	<b>(1,484)</b>	<b>7,837</b>
	<u>          </u>	<u>          </u>	<u>          </u>

- (1) Reflects the effect of inflation on the comprehensive income at the beginning of each period, adjusted to constant pesos of December 31, 2004.

*(x) Segment information*

The Bank presents information in accordance with Statement of Financial Accounting Standard No.131 Disclosure about Segments of an Enterprise and Related Information, which establishes standards for reporting information about operating segments and related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly used by the Chief operating decision maker in deciding how to allocate resources and in assessing performance.

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

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**Chilean pesos as of December 31, 2004)**

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

*(x) Segment information (continued)*

*Large Corporate Banking*

The Large Corporate Banking segment provides services to domestic companies with annual sales in excess of Ch\$12,000 million, multinational corporations, financial institutions, governmental entities and companies affiliated with Chile's largest economic groups. Services provided include deposit taking and lending in both Chilean pesos and foreign currency, trade and project financing, working capital financing, foreign trade financing, lines of credit, commercial mortgage loans and various non-credit services, such as collection, supplier payments, payroll management and a wide range of treasury and risk management products.

*Middle Market Corporate Banking*

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

*Retail Banking,*

The Retail-banking segment primarily provides individual customers with credit cards, residential mortgage, auto and consumer loans as well as traditional deposit services such as checking and savings accounts and time deposits.

*International Banking,*



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

### *Treasury*

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

### *Subsidiaries*

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

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

The net interest margin of loans and deposits is measured on an individual transaction and client basis, based on the difference between the effective customer rate and the related Bank's fund transfer price in terms of maturity, re-pricing and currency;

The matching of interest rates and the insurance of adequate hedging activities are performed within Treasury Operations. The results associated to the gap management has been allocated among different segments in accordance to the amount of interest earning assets in each segment;

The internal performance profitability system considers capital allocation in each segment in accordance to Basle guidelines.

Provisions for loan losses in each segment are measured on a client basis.

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

In terms of costs, the Bank's management model used considers the allocation of costs that are directly related and not the overhead expenses of corporate and support departments, additional allowances, taxes and certain other non-operating income and expenses;

Certain operating costs are allocated to each segment based on the type and amount of transactions. In addition, the Bank allocates theoretical rental costs to each property-owned branch based on market rental values so that the results of these branches are comparable to rental-property branches.

The following tables show the results of the Bank by operating segments for the three years ended December 31, 2004:

**Year ended December 31, 2004 (1)**

	<b>Large Corporate</b>	<b>Middle Market</b>	<b>Retail Banking</b>	<b>International Banking</b>	<b>Treasury</b>	<b>Subsidiaries</b>	<b>Other (2)</b>	<b>Total</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
Operating Revenues	79,712	112,267	166,877	12,217	29,081	65,693	3,976	469,823
Provisions	(14,456)	(22,669)	(33,948)	(84)	(1,454)	(1,708)	807	(73,512)
Operating Expenses	(28,346)	(55,573)	(90,381)	(5,196)	(2,324)	(35,011)	(23,471)	(240,302)
Other income and expenses	1,884	2,512	6,460	(181)	(212)	(793)	5,298	14,968
<b>Net income before taxes</b>	<b>38,794</b>	<b>36,537</b>	<b>49,008</b>	<b>6,756</b>	<b>25,091</b>	<b>28,181</b>	<b>(13,390)</b>	<b>170,977</b>

**Year ended December 31, 2003 (1)**

	<b>Large Corporate</b>	<b>Middle Market</b>	<b>Retail Banking</b>	<b>International Banking</b>	<b>Treasury</b>	<b>Subsidiaries</b>	<b>Other (2)</b>	<b>Total</b>
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	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Operating Revenues	90,493	108,647	140,725	16,786	23,337	54,223	(7,077)	427,134
Provisions	(12,925)	(17,601)	(32,439)	1,307	(1,407)	(565)	2,018	(61,612)
Operating Expenses	(25,223)	(53,305)	(81,407)	(6,355)	(2,243)	(31,173)	(27,851)	(227,557)
Other income and expenses	(496)	1,368	10,596	769	(67)	(687)	(1,381)	10,102
<b>Net income before taxes</b>	<b>51,849</b>	<b>39,109</b>	<b>37,475</b>	<b>12,507</b>	<b>19,620</b>	<b>21,798</b>	<b>(34,291)</b>	<b>148,067</b>

Year ended December 31, 2002 (1)

	Large Corporate	Middle Market	Retail Banking	International Banking	Treasury	Subsidiaries	Other (2)	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Operating Revenues	93,867	113,797	147,639	2,680	26,024	42,832	819	427,658
Provisions	(48,869)	(31,483)	(38,793)	(329)	(235)	(1,670)	17,187	(104,192)
Operating Expenses	(24,746)	(54,411)	(85,121)	(9,043)	(1,546)	(24,190)	(57,723)	(256,780)
Other income and expenses	(9,706)	(3,375)	2,048	(208)	(374)	(2,998)	1,223	(13,390)
<b>Net income (loss) before taxes</b>	<b>10,546</b>	<b>24,528</b>	<b>25,773</b>	<b>(6,900)</b>	<b>23,869</b>	<b>13,974</b>	<b>(38,494)</b>	<b>53,296</b>

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

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

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

Information about geographic areas.

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

A summary of activities by geographic area is as follows:

	As of December 31,		
	2002	2003	2004
	MCh\$	MCh\$	MCh\$
<b>Total Interest Revenues</b>			
Republic of Chile	691,854	425,911	530,353
U.S.A.	22,164	13,511	13,019
Hong Kong			
<b>Total Net Income</b>			
Republic of Chile	60,225	122,487	148,969
U.S.A.	(5,735)	11,330	3,666
Hong Kong			(7)
<b>Mortgage Loans</b>			
Republic of Chile	1,229,122	1,156,231	819,882
U.S.A.			
Hong Kong			
<b>Commercial Loans</b>			
Republic of Chile	2,590,798	2,614,295	2,788,458

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U.S.A.	120,735	93,883	78,830
Hong Kong			
<b>Income Taxes</b>			
Republic of Chile	1,011	(14,771)	(18,466)
U.S.A.	183	521	116
Hong Kong			1
<b>Bank Premises and equipment</b>			
Republic of Chile	142,641	130,067	131,978
U.S.A.	1,614	882	692
Hong Kong			
<b>Total Assets</b>			
Republic of Chile	8,269,634	8,898,878	9,029,170
U.S.A.	625,248	582,272	620,031
Hong Kong			2

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2004)**

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

*(y) Estimated Fair Value of Financial Instruments and Derivative Financial Instruments*

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

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

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

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

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

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

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

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

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

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

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

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

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

	As of December 31,			
	2003		2004	
	Carrying Amount	Estimated fair value	Carrying Amount	Estimated fair value
	MCh\$	MCh\$	MCh\$	MCh\$
<b>ASSETS</b>				
Cash and due from banks	413,702	413,702	571,584	571,584
Interest bearing deposits in other banks	188,300	188,300	38,835	38,835
Term federal funds	73,732	73,732	55,995	55,995
Accounts receivable under spot foreign exchange transactions (1)	40,127	38,871	50,483	50,483
Financial investments	1,702,196	1,702,192	1,512,450	1,512,444
Loans, net (2)	5,880,857	6,081,799	6,291,266	6,442,445
Derivative instruments	77,061	77,061	73,154	73,154
<b>LIABILITIES</b>				
Deposits	4,982,130	5,630,704	5,466,695	5,531,779
Accounts payable under spot foreign exchange transactions (1)	48,206	46,950	52,035	52,035
Investments under agreements to repurchase	437,410	437,410	349,086	349,086
Short term and long term borrowings	2,236,620	2,298,889	2,047,658	2,195,797
Derivative instruments	79,321	79,321	111,659	111,659

(1) Included under the captions Other assets and Other liabilities.

(2) The carrying amounts of loans in the above table excludes contingent loans since they represent undisbursed amounts under undrawn letters of credit and other credit guarantees granted by the Bank.



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(z) Investments in other companies

As of December 31, 2002, 2003 and 2004, investments in other companies and the Bank's participation in such companies' results of operations for each of the periods indicated, consist of the following:

	As of and for the years ended December 31,						Ownership Interest 2004 %
	2002		2003		2004		
	Investment	Income (Loss)	Investment	Income (Loss)	Investment	Income (Loss)	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
Artikos S.A.	(70)	(1,288)	208	(2,046)	43	(165)	50.00
Servipag Ltda.	741	52	831	90	984	152	50.00
Redbanc S.A.	903	156	1,046	298	884	138	25.42
Soc. Operadora de Tarjetas de Crédito Nexus S.A.	905	49	1,011	146	1,066	172	25.81
Centro de Compensación Automatizado S.A. (CCA S.A.)	157	13	204	45	189	31	33.33
Empresa de Tarjetas Inteligentes S.A.	160	(149)	116	(44)		(134)	26.67
Total investments in other companies accounted for under the equity method	2,796	(1,167)	3,416	(1,511)	3,166	194	
Other investments carried at cost	2,565	(166)	2,528	360	2,786	267	
<b>Total investments in other companies</b>	<b>5,361</b>	<b>(1,333)</b>	<b>5,944</b>	<b>(1,151)</b>	<b>5,952</b>	<b>461</b>	

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

	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Land and buildings	106,589	102,637
Furniture and fixtures	5,676	5,347
Machinery and equipment	27,400	31,945
Vehicles	641	812
Assets under lease	25,111	26,843
Other assets	2,288	2,486
<b>Bank premises and equipment, net</b>	<b>167,705</b>	<b>170,070</b>

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

*(ab) Other assets and other liabilities**(1) Other assets*

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	As of December 31,	
	2003	2004
	MCh\$	MCh\$
Intangibles	156,527	140,614
Derivative instruments	77,061	73,154
Deferred income tax assets	95,158	61,297
Amounts receivable under spot foreign exchange transaction	40,127	50,483
Assets received in lieu of payment	17,038	18,173
Deferred software cost	5,464	11,085
Transactions in process	10,706	10,962
Deferred asset related to bonds issuances	6,255	8,080
Investments in other companies	5,944	5,952
Deferred loan origination and service costs	2,819	5,252
VAT fiscal credit	3,300	3,198
Accounts receivable for assets received in lieu of payment sold	4,697	2,915
Other deferred expenses	1,092	2,068
Materials and supplies	491	475
Other	18,539	23,977
<b>Total other assets</b>	<b>445,218</b>	<b>417,685</b>

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(ab) Other assets and other liabilities (continued)**(2) Other liabilities*

	<b>As of December 31,</b>	
	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Accounts payable	103,450	125,529
Derivative instruments	79,321	111,659
Amounts payable under spot foreign exchange transaction	48,206	52,035
Provision for minimum dividend	40,145	45,788
Deferred income tax liabilities	75,830	41,889
Accrued severance staff indemnities	11,578	11,297
Accrued staff vacation expense	9,398	9,826
Premium on bond issuances	6,256	8,080
Allowance of income taxes	10,157	8,008
Deferred loan origination and service fees	3,935	4,177
Leasing deferred gains	4,277	4,174
Administration and credit card contract provision	4,741	3,226
VAT fiscal debit	3,289	3,205
Transactions in process	1,670	1,341
Legal contingencies provision	744	925
Other	4,272	4,901
<b>Total other liabilities</b>	<b>407,269</b>	<b>436,060</b>

*(3) Contingent Liabilities*

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

	As of December 31, 2003		As of December 31, 2004	
	Book Value	Contract amount	Book Value	Contract amount
	MCh\$	MCh\$	MCh\$	MCh\$
Performance bonds	2,338	252,035	2,950	347,843
Standby letters of credits	174	24,634	232	23,737
Foreign office guarantees	3	32,876	51	15,355
<b>Total</b>	<b>2,515</b>	<b>309,545</b>	<b>3,233</b>	<b>386,935</b>

Guarantees in the form of performance bonds, stand by letters of credit and foreign office guarantees are issued in connection with agreements made by customers to counterparties. If the customer fails to comply with the agreement, the counterparty may enforce the performance bond as a remedy. Credit risk arises from the possibility that the customer may not be able to repay the Bank for performance bonds. To mitigate credit risk, the Bank generally determines the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness.

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(ab) Other assets and other liabilities (continued)*

The expiration of guarantees, per period is as follows:

	Due within 1 year	Due after 1 year but within 3 year	Due after 3 years but within 5 years	Due after 5 years	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Performance bonds	221,812	96,309	28,322	1,400	347,843
Standby letters of credits	12,521	10,956	78	182	23,737
Foreign office guarantees	15,355				15,355
<b>Total</b>	<b>249,688</b>	<b>107,265</b>	<b>28,400</b>	<b>1,582</b>	<b>386,935</b>

*(ac) Other Interest Bearing Liabilities*

The Bank's long-term and short-term borrowings are summarized below. In accordance with the guidelines established by the Superintendency of Banks, the Bank does not present a classified balance sheet. Borrowings are described as short-term when they have original maturities of less than one year or are due on demand. All other borrowings are described as long-term, including the amounts due within one year on such borrowings.

As of December 31, 2003			As of December 31, 2004		
Long-term	Short-term	Total	Long-term	Short-term	Total

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	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Central Bank Credit lines for renegotiation of loans	3,049		3,049	1,930		1,930
Other Central Bank borrowings		25,529	25,529		107,643	107,643
Mortgage finance bonds	1,078,723		1,078,723	823,472		823,472
Bonds	3,205		3,205	181,515		181,515
Subordinated bonds	277,977		277,977	266,304		266,304
Borrowings from domestic financial institutions	106	51,023	51,129		26,399	26,399
Foreign borrowings	462,131	273,787	735,918	254,812	340,736	595,548
Investments under agreements to repurchase		437,410	437,410		349,086	349,086
Other obligations	10,092	50,998	61,090	11,089	33,758	44,847
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total other interest bearing liabilities</b>	<b>1,835,283</b>	<b>838,747</b>	<b>2,674,030</b>	<b>1,539,122</b>	<b>857,622</b>	<b>2,396,744</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(ac) Other Interest Bearing Liabilities (continued)**Mortgage finance bonds*

These bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and carry a weighted average annual rate of interest of 5.9% as of December 31, 2004.

The maturities of outstanding mortgage bond amounts as of December 31, 2004 are as follows:

	<b>As of December 31,</b>
	<b>2004</b>
	<b>MCh\$</b>
Due within 1 year	79,647
Due after 1 year but within 2 years	71,034
Due after 2 years but within 3 years	71,525
Due after 3 years but within 4 years	69,640
Due after 4 years but within 5 years	68,004
Due after 5 years	463,622
<b>Total mortgage finance bonds</b>	<b>823,472</b>

*(ad) Shareholders Equity*



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The Bank's paid-in capital consists of 68,079,783,605 authorized shares of no fixed nominal value, issued and outstanding as of December 31, 2004. Dividends related to the year ended December 31, 2003 were paid-out based on the legal entities in existence as of the year end.

Dividends are declared and paid during the year subsequent to that in which the related net income was earned. Dividends were declared and paid to the respective shareholders of each of the merging banks based on prior year net income determined under Chilean GAAP for the years ended December 31, 2002, 2003 and 2004 (presented in constant Chilean pesos as of December 31, 2004) are as follows:

	<b>Paid during the year ended</b>		
	<b>December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
Dividends relating to Banco de Chile	93,140	54,217	134,372
Dividends per share relating to Banco de Chile	2.07	0.80	2.03
Dividends relating to Banco de A. Edwards (1)(2)	10,810		
Dividends per share relating to Banco de A. Edwards	0.47		

(1) On January 1, 2002 Banco de A. Edwards merged with Banco de Chile.

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

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2004)

**28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(ae) Fees and income from services*

The Bank's fees and income from services and non-operating income and expenses for the years ended December 31, 2002, 2003 and 2004 are summarized as follows:

	Years ended December 31,					
	2002		2003		2004	
	Income	Expenses	Income	Expenses	Income	Expenses
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Fees and income from services</b>						
Mutual funds	13,619	(1,371)	15,029	(1,429)	20,446	(1,830)
Debit card and ATM	12,282	(2,666)	15,678	(7,304)	17,570	(7,138)
Insurance	7,032	(738)	10,752	(1,156)	14,408	(172)
Stock brokerage	4,162	(446)	10,160	(627)	12,858	(775)
Collection of overdue loans	6,558		8,837		8,569	
Collection and payment of services	5,891		7,358	(7)	7,970	(10)
Credit lines	5,158		5,659		6,747	
Income and expense from goods received in lieu of payment	3,035	(1,774)	4,284	(1,796)	5,491	(1,617)
Demand deposits	9,326		5,031		5,379	
Financial services	1,977		5,484		4,632	
Contingent fees	3,359		3,344		3,730	
Collection services	2,675		2,946		3,561	
Foreign trade and currency exchange	2,300		3,340		3,409	
Prepayment of loans	1,238		2,018		3,317	
Letters of credit guarantees, collaterals and other contingent loans	1,786		1,780		2,977	
Leasing	1,727	(496)	1,678	(527)	1,625	(86)
Custody and trust services	609		934		1,399	
Factoring	305	(4)	753	(3)	634	(50)
Sales force expenses		(8,767)		(11,135)		(11,193)
Teller services expenses		(2,834)		(3,252)		(3,388)
Cobranding expenses		(3,149)		(6,095)		(3,633)
Other	2,190	(1,479)	4,281	(2,515)	6,413	(3,095)

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<b>Total</b>	<b>85,229</b>	<b>(23,724)</b>	<b>109,346</b>	<b>(35,846)</b>	<b>131,135</b>	<b>(32,987)</b>
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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(af) Non-operating income and expense*

	Years ended December 31,					
	2002		2003		2004	
	Income	Expenses	Income	Expenses	Income	Expenses
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Non-operating income and expenses</b>						
Rental income	2,766		2,427		2,356	
Gains on sales of assets received in lieu of payment	856		1,314		843	
Recoveries of expenses	540		533		583	
Income (losses) attributable to investments in other companies		(1,333)		(1,151)	461	
Income from sale of fixed assets	537		540		297	
Foreign trade income	45		6		146	
Leasing income	10		1		75	
Dividends received	10		20		56	
Indemnity from misfeasance insurance			111		1	
Provision for recovered leased assets		(235)		(1,407)		(1,454)
Delivery services of bank products		(661)		(653)		(647)
Provision and charge-offs other assets		(20)		(677)		(408)
Expenses on charge-off for leasing		(6)		(620)		(242)
Reversal of adjustments and interest from previous years		(36)		(695)		(124)
Cash losses		(146)		(129)		(82)
Advertising expenses		(59)		(45)		(53)
Charge-off obsolete materials		(289)		(329)		(1)
Amortization of negative goodwill		(11)		(55)		
Tax expenses from previous years						(2,247)
White offs for fraud				(110)		(1,063)
Amortization of intangibles		(21,316)		(17,984)		(15,913)
Charge-offs and provision of assets received in lieu of payment		(8,582)		(7,540)		(8,219)
Charge-offs and provision related to fixed assets		(3,016)		(127)		(43)
Charge-offs of transaction in process related to the merger		(2,087)				
Asset received in lieu of payment		(1,783)	390		1,023	
Charge-offs		(1,347)		(2,313)		(1,327)
Legal contingencies provision		(995)		(151)		(182)

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Merger expenses		(1,276)				
Other	1,371	(3,489)	477	(1,094)	464	(540)
<b>Total</b>	<b>6,135</b>	<b>(46,687)</b>	<b>5,819</b>	<b>(35,080)</b>	<b>6,305</b>	<b>(32,545)</b>

(ag) Recent accounting pronouncements

Other-Than-Temporary Impairments of Certain Investments

On September 30, 2004, the FASB voted unanimously to delay the effective date of EITF 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. The delay applies to both debt and equity securities and specifically applies to impairments caused by interest rate and sector spreads. In addition, the provisions of EITF 03-1 that have been delayed relate to the requirements that a company declare its intent to hold the security to recovery and designate a recovery period in order to avoid recognizing an other-than-temporary impairment charge through earnings.

The FASB will be issuing implementation guidance related to this topic. Once issued, the Bank will evaluate the impact of adopting EITF 03-1.

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2004)****28. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(ag) Recent accounting pronouncements (continued)*

## Accounting for Certain Loans or Debt Securities Acquired in a Transfer

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

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

**29. Merger Expenses**

The Bank recorded MCh\$31,973 in its consolidated statement of income as of December 31, 2002 for merger expenses that have been directly charged to income for the period, as follows:

	As of December 31,  2002
	<u>MCh\$</u>
Staff severance indemnities	14,995

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Charge-offs and provisions related to fixed assets	4,502
Charge-offs software development	4,007
Charge offs of other assets	2,209
Maintenance and remodeling of offices	1,307
Other personnel expenses	1,113
Consulting services	1,066
Marketing	605
Indemnity for termination of rental contracts	603
Other	1,566
<b>Total</b>	<b>31,973</b>

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2004)**

**30. Relevant Events**

- (a) On March 26, 2004, the Bank offered, through a public tender offer, to buy 1,701,994,590 of its own shares for \$31, equivalent to 2.5% of the total shares, in conformity with the Repurchase of Shares Program, as agreed upon by the Extraordinary Shareholders' Meeting of March 20, 2003. On June 5, 2003, the Superintendency of Banks and Financial Institutions approved the repurchase program.

On April 27, 2004, the offer was declared a success, which caused a charge to the shareholders' equity account - Reserves - of MCh\$52,761.8.

- (b) On September 1, 2004, the Office of Financial Regulation of the State of Florida, United States of America, authorized Banco de Chile's Miami Agency to initiate activities as an international branch in Miami.
- (c) In session N° 2,589 of the Board of Directors, on November 25, 2004, Mr. Manuel Sobral Fraile presented his formal resignation to the Board. Mr. Thomas Fürst Freiwirth was designated to replace him.
- (d) On December 24, 2004, the Mark Agreement, dated July 29, 2002, between Banco de Chile, Banchile Seguros de Vida S.A and Banchile Corredores de Seguros Limitada was modified. The following contracts were also modified: (1) Collection and Death Insurance with the aforementioned insurance company held by the Bank; and (2) Promotion contract between Banchile Corredores de Seguros Limitada and Banco de Chile. The new agreements set-out the application of the Mark Agreement, the development of Bancaseguros, use of the Bank's web page, use of the Banchile trademark, and the distribution costs of insurance through the Bank, independent. The loans and authorizations of use that were agreed-upon and their respective prices are adjusted to the market distribution costs of the insurance through the Banks.
- (e) In session N° 2,592 of the Board of Directors on January 7, 2005, Mr. Jorge Díaz Vial resigned as Alternate Director and Mr. Jorge Ergas Heymann was designated in his place.