

BANK OF CHILE  
Form 20-F  
June 29, 2009  
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As filed with the Securities and Exchange Commission on June 29, 2009

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

For the fiscal year ended December 31, 2008

Commission file number 001-15266

**BANCO DE CHILE**

(Exact name of Registrant as specified in its charter)

**BANK OF CHILE**

(Translation of Registrant's name into English)

**REPUBLIC OF CHILE**

(Jurisdiction of incorporation or organization)

**Banco de Chile**

**Ahumada 251**

**Santiago, Chile**

**(562) 637-1111**

(Address of principal executive offices)

**Pedro Samhan E.**

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**Banco de Chile**

**Ahumada 251**

**Santiago, Chile**

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

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

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

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

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

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

**None**

(Title of Class)

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

**None**

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**Shares of common stock: 80,879,895,984**

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

U.S. GAAP  IFRS  Other

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

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

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**THE MERGER**

On January 1, 2008, Banco de Chile merged with Citibank Chile 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, 2008 (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 on or after January 1, 2008 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 aspects 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 34 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 equity.

The Chilean Superintendency of Banks, through its Circular No. 3,410 dated November 9, 2007, subsequently supplemented by Circular No. 3,443 dated August 21, 2008, introduced the new Compendium of Accounting Standards that banks must apply as a result of the IFRS convergence project developed by the Chilean Superintendency of Banks. The Compendium of Accounting Standards established a new format for the presentation of the annual financial statements starting in 2008. The application of this new format only affected the presentation of the financial statements and did not have an effect on the accounting criteria applied by the Bank. For comparative purposes, all the financial information from 2004 through 2007 in this annual report has been restated in accordance with the new presentation format, which presentation format was also used with respect to the 2008 financial information contained in this annual report.

Pursuant to Chilean GAAP, unless otherwise indicated, financial data for all full-year periods through December 31, 2008 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 as of December 31, 2008.

In this annual report, references to \$, U.S.\$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch\$ are to Chilean pesos and references to UF are to *Unidades de Fomento*. The UF is an inflation-indexed Chilean monetary unit of account with a value in Chilean pesos that is linked to and adjusted daily to reflect changes in the Consumer Price Index of the *Instituto Nacional de Estadísticas*, or the Chilean National Statistics Institute. As of December 31, 2008, one UF equaled U.S.\$34.10 and Ch\$21,452.57. See Note 1 to our audited consolidated financial statements. Percentages and certain dollar and peso amounts contained in this annual report have been rounded for ease of presentation.

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in preparing our audited consolidated financial statements or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Chilean pesos based on the observed exchange rate, as described in Item 3. Key Information Selected Financial Data Exchange Rates, reported by the *Banco Central de Chile*, or the Central Bank, for December 30, 2008 (the latest practicable date, as December 31, 2008 was a banking holiday in Chile). The observed exchange rate on June 26, 2009 was Ch\$531.93 = U.S.\$1.00. The rate reported by the Central Bank is based on the rate

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for the prior business day in Chile and is the exchange rate specified by the Chilean Superintendency of Banks to be used by Chilean banks in the preparation of their financial statements. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Unless otherwise specified, all references in this annual report to loans are to loans and financial leases before deduction of allowances for loan losses, and all market share data presented in this annual report are based on information published periodically by the Chilean Superintendency of Banks. Non-performing loans include loans as to which either principal or interest is overdue and loans that do not accrue interest.

Restructured loans as to which no payments are overdue are not ordinarily classified as non-performing loans. Past due loans include, with respect to any loan, the portion of principal or interest that is 90 or more days overdue; the entire outstanding balance of any loan is included in past due loans only after legal collection proceedings have been commenced. This practice differs from that normally followed in the United States, where the amount classified as past due would include the total principal and interest on all loans which have any portion overdue. See

Item 4. Information on the Company Selected Statistical Information Classification of Loan Portfolio Based on the Borrower's Payment Performance.

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 equity are based on information published by the Chilean Superintendency of Banks. Information regarding the consolidated risk index of the Chilean financial system as a whole is not available. Prior to January 1, 2004, the Chilean Superintendency of Banks published the unconsolidated risk index for the financial system three times yearly in February, June and October. Since that date, this index is determined on a monthly basis by dividing allowances for loan losses by total loans, based on information provided by the Chilean Superintendency of Banks.

## **PART I**

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

Not Applicable.

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

Not Applicable.

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The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements appearing elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with Chilean GAAP and the rules of the Chilean Superintendency of Banks, which together differ in certain significant aspects from U.S. GAAP. Note 34 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, 2006, 2007 and 2008 and equity at December 31, 2007 and 2008.

	At or for the year ended December 31,					
	2004	2005	2006	2007	2008	2008
	(in millions of constant Ch\$ as of December 31, 2008, except share data)					
<b>CONSOLIDATED STATEMENT OF INCOME DATA</b>						
<b>Chilean GAAP:</b>						
Interest revenue	Ch\$ 708,530	Ch\$ 817,689	Ch\$ 845,641	Ch\$ 1,204,230	Ch\$ 1,663,643	US\$ 2,644,439
Interest expense	(265,861)	(370,354)	(433,561)	(690,463)	(885,104)	(1,406,915)
Net interest revenue	442,669	447,335	412,080	513,767	778,539	1,237,524
Net fees and commissions	146,943	170,292	169,665	187,773	215,864	343,126
Gains (losses) from trading and brokerage activities	(3,897)	3,928	99,147	39,442	387,703	616,272
Foreign exchange transactions, net	(15,027)	(1,026)	(12,599)	19,756	(353,012)	(561,129)
Other operating income	31,663	50,474	29,768	23,942	68,386	108,703
Provisions for loan losses	(50,415)	(49,156)	(42,973)	(56,678)	(138,593)	(220,300)
Total operating expenses	(331,718)	(367,634)	(389,780)	(391,280)	(573,848)	(912,159)
Income attributable to affiliates	539	813	1,206	(2,229)	2,987	4,748
Loss from price-level restatements	(9,236)	(13,673)	(9,972)	(41,325)	(77,789)	(123,649)
Income before income tax	211,521	241,353	256,542	293,168	310,237	493,136
Income tax	(22,700)	(25,544)	(28,182)	(29,316)	(37,810)	(60,101)
Net income for the year	188,821	215,809	228,360	263,852	272,427	433,035
Minority Interest	1		(1)		(2)	(3)
Net income	188,822	215,809	228,359	263,852	272,425	433,032
Earnings per share <sup>(1)</sup>	2.82	3.22	3.32	3.69	3.37	0.005
Dividends per share <sup>(2)</sup>	2.44	2.87	2.64	2.73	3.63	0.006
Weighted average number of shares (in millions)	66,932.68	67,091.30	68,821.32	71,494.60	80,871.88	
<b>U.S. GAAP<sup>(3)</sup> :</b>						
Interest revenue	713,245	816,675	835,840	1,189,682	1,642,889	2,611,450
Interest expense	(269,779)	(378,957)	(438,670)	(727,468)	(958,573)	(1,523,697)
Net interest revenue	443,466	437,718	397,170	462,214	684,316	1,087,753
Provisions for loan losses	(38,601)	(25,413)	(61,460)	(52,440)	(127,902)	(203,306)
Net income	181,750	201,608	202,147	251,575	216,700	344,455
Earnings per share on continuing operations	2.70	3.10	3.02	3.53	2.81	0.004
Earnings per share on discontinued operations	0.02	(0.10)	(0.08)	(0.01)	(0.13)	
Earnings per share <sup>(1)</sup>	2.72	3.00	2.94	3.52	2.68	0.004

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Weighted average number of total shares <sup>(4)</sup>	66,932.68	67,091.30	68,821.32	71,494.60	80,871.88
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	At or for the year ended December 31,					
	2004	2005	2006	2007	2008	2008
	(in millions of constant Ch\$ as of December 31, 2008, except share data)					
<b>CONSOLIDATED STATEMENT OF FINANCIAL SITUATION DATA</b>						
<b>Chilean GAAP:</b>						
Cash and due from banks	376,811	617,729	1,166,052	405,194	751,223	1,194,104
Transactions in the course of collection	467,916	309,869	409,808	330,978	469,580	746,420
Trading securities	1,901,267	1,627,927	1,516,262	1,537,522	679,843	1,080,642
Securities purchased under resale agreement	32,549	55,761	62,355	75,283	75,519	120,041
Derivative instruments			59,065	88,331	904,726	1,438,105
Loans and advances to banks	357,102	36,395	109,494	303,165	321,992	511,821
Total loans to customer, net	7,739,289	8,839,114	10,006,152	11,382,366	13,421,804	21,334,590
Available for sale instruments	33,795	29,429	46,861		1,071,438	1,703,101
Held to maturity instruments	20,805	18,408	18,717			
Investments in other companies	6,695	8,552	9,000	8,014	11,377	18,084
Intangible assets	13,716	18,024	26,053	27,196	34,763	55,257
Bank premises and equipment	163,520	169,684	177,054	183,901	205,369	326,444
Deferred tax assets	80,086	75,162	63,728	49,042	70,505	112,071
Other assets	114,538	125,773	121,568	160,780	110,303	175,332
<b>Total assets</b>	<b>11,308,089</b>	<b>11,931,827</b>	<b>13,792,169</b>	<b>14,551,772</b>	<b>18,128,442</b>	<b>28,816,012</b>
Current accounts and other demand deposits	2,625,290	2,389,262	2,622,746	2,735,681	3,007,261	4,780,183
Transactions in the course of payment	62,056	93,171	144,673	75,801	141,988	225,697
Securities sold under repurchase agreements	431,867	326,747	365,080	386,794	420,658	668,656
Saving accounts and time deposits	4,532,475	5,508,904	6,770,518	7,134,228	8,472,590	13,467,581
Derivative instruments	55,153	71,669	81,818	130,856	862,799	1,371,460
Borrowings from financial institutions	904,828	899,001	795,839	933,631	1,498,549	2,382,014
Debt issued	1,529,976	1,416,846	1,681,690	1,760,400	1,900,588	3,021,074
Other financial obligations	61,489	47,035	36,123	68,652	93,708	148,953
Currents tax liabilities	5,993	4,221	233	6,449	9,053	14,390
Deferred tax liabilities	23,381	26,132	24,269	15,927	25,465	40,478
Provisions	71,822	72,136	75,046	73,433	290,990	462,542
Other liabilities	169,269	151,113	217,960	84,952	107,050	170,161
<b>Total liabilities</b>	<b>10,473,599</b>	<b>11,006,237</b>	<b>12,815,995</b>	<b>13,406,804</b>	<b>16,830,699</b>	<b>26,753,189</b>
<b>Total equity<sup>(12)</sup></b>	<b>Ch\$ 834,490</b>	<b>Ch\$ 925,590</b>	<b>Ch\$ 976,174</b>	<b>Ch\$ 1,144,968</b>	<b>Ch\$ 1,297,743</b>	<b>U.S.\$ 2,062,823</b>
<b>U.S. GAAP<sup>(3)</sup> :</b>						
Financial investments	1,838,563	1,336,790	1,137,515	760,010	1,470,226	2,336,994
Loans, net	7,784,003	8,893,200	10,055,847	11,445,681	13,519,843	21,490,428
Total assets	11,856,202	12,692,587	14,405,023	15,162,336	18,694,146	29,715,227
Total liabilities	10,217,894	10,985,258	12,678,224	13,289,667	16,565,639	26,331,864
Minority Interest	1	1	2	1	8	13
Total Equity	1,638,307	1,707,328	1,726,797	1,872,668	2,128,499	3,383,350

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	At or for the year ended December 31,				
	2004	2005	2006	2007	2008
<b>CONSOLIDATED RATIOS</b>					
<b>Chilean GAAP:</b>					
<i>Profitability and Performance</i>					
Net interest margin <sup>(5)</sup>	4.09%	4.04%	3.48%	3.97%	5.12%
Return on average total assets <sup>(6)</sup>	1.67	1.86	1.77	1.91	1.61
Return on average equity <sup>(7)</sup>	23.56	26.66	22.63	24.35	18.99
<i>Capital</i>					
Average equity as a percentage of average total assets	7.10	6.98	7.81	7.84	8.46
Bank regulatory capital as a percentage of minimum regulatory capital	179.13	184.06	165.71	183.33	218.53
Ratio of liabilities to regulatory capital <sup>(8)</sup>	16.22	15.51	17.14	15.22	12.97
<i>Credit Quality</i>					
Substandard loans as a percentage of total loans <sup>(9)</sup>	7.02	5.04	4.17	3.66	4.98
Allowances for loan losses as a percentage of substandard loans <sup>(9)</sup>	28.86	30.58	33.15	34.80	33.45
Allowances for loan losses as a percentage of total loans	2.03	1.54	1.38	1.27	1.66
Consolidated risk index	2.03	1.54	1.38	1.27	1.66
<i>Operating Ratios</i>					
Operating expenses/operating revenue	55.07	54.79	55.84	49.86	52.29
Operating expenses/average total assets	2.94	3.17	3.02	2.83	3.39
<b>U.S. GAAP:</b>					
<i>Profitability and Performance</i>					
Net interest margin <sup>(10)</sup>	4.10%	3.95%	3.35%	3.57%	4.50%
Return on average total assets <sup>(11)</sup>	1.61	1.74	1.57	1.82	1.28

- (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 during each year by the previous year's number of shares outstanding.
- (3) All U.S. GAAP numbers use Article 9 presentation. All U.S. GAAP figures have been calculated taking into account the U.S. GAAP adjustments set forth in Note 34 to our audited consolidated financial statements.
- (4) For 2004, the weighted average of shares outstanding includes the effect of the repurchase of our shares during 2004. For 2005, the weighted average of shares outstanding includes the effect of the sale of 1,701,994,590 shares issued by us in accordance with our share repurchase program. For 2006, the weighted average of shares outstanding includes the effect of the issuance and distribution of 957,781,060 shares as a result of the capitalization of retained earnings. For 2007, the weighted average of shares outstanding includes the effect of the issuance and distribution of 882,459,200 shares as a result of the capitalization of retained earnings and the effect of the issuance and payment of 2,076,059,351 shares in connection with a capital increase. For 2008, the weighted average of shares outstanding includes the effect of the merger between Banco de Chile and Citibank Chile. In accordance with the terms of the merger, 8,443,861,140 nominative, ordinary shares with no par value, of the Banco de Chile S series, were given to the shareholders of Citibank Chile, in the proportion of 8,443.86114 shares of Banco de Chile for each share of Citibank Chile. In addition, 439,951,628 shares were subscribed and fully paid.
- (5) Net interest revenue divided by average interest earning assets. The average balances for interest earning assets, including interest and readjustments, have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries.
- (6) Net income (loss) divided by average total assets. The average balances for total assets have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries.

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- (7) Net income (loss) divided by average equity. The average balances for equity have been calculated on the basis of our daily balances.
- (8) Total liabilities divided by bank regulatory capital.
- (9) See Item 4. Information on the Company Selected Statistical Information Analysis of Substandard Loans and Amounts Past Due.
- (10) Net interest revenue under U.S. GAAP divided by average interest earning assets.
- (11) Net income under U.S. GAAP divided by average total assets.
- (12) Under Chilean GAAP, total equity includes the minority interest.

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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, 2008 (the latest practicable date as December 31, 2008 was a banking holiday in Chile), the average exchange rate in the Informal Exchange Market was Ch\$641.25 per U.S.\$1.00, or 1.89% higher than the published observed exchange rate of Ch\$629.11 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 2004, as reported by the Central Bank:

Year	Daily Observed Exchange Rate Ch\$ per U.S.\$ <sup>(1)</sup>			
	Low <sup>(2)</sup>	High <sup>(2)</sup>	Average <sup>(3)</sup>	Period End <sup>(4)</sup>
2004	Ch\$ 559.21	Ch\$ 649.45	Ch\$ 609.53	Ch\$ 559.83
2005	509.70	592.75	559.77	514.21
2006	511.44	549.63	530.28	534.43
2007	493.14	548.67	522.47	495.82
2008	431.22	676.75	522.46	629.11
December	625.59	674.83	649.32	629.11
2009				
January	610.09	643.87	623.01	612.43
February	583.32	623.87	606.00	595.76
March	572.39	614.85	592.93	582.10
April	575.12	601.04	583.18	588.62
May	558.95	580.10	565.72	564.64
June <sup>(5)</sup>	531.93	568.71	554.28	531.93

Source: Central Bank.

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

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(5) Period from June 1, 2009 through June 26, 2009.

The observed exchange rate on June 26, 2009 was Ch\$531.93 = U.S.\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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**RISK FACTORS**

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

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

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

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

From December 31, 2004 to December 31, 2008, our aggregate loan portfolio, net of interbank loans (on a consolidated basis) grew by 113.8% in nominal terms and 72.8% in real terms to Ch\$13,649,005 million. During the same period, our consumer loan portfolio grew by 150.2% in nominal terms and 102.2% in real terms to Ch\$1,887,548 million, each calculated in accordance with the loan classification system of the Chilean Superintendency of Banks. Expansion of our loan portfolio (particularly in the retail market) may expose us to a higher level of loan losses and require us to establish higher levels of allowances for loan losses. For the year ended December 31, 2008, total allowances for loan losses accounted for Ch\$227,202 million, or 1.66%, of total loans.

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

We cannot assure you that in the future our loan portfolio will continue to grow at historical rates. According to the Chilean Superintendency of Banks, from December 31, 2004 to December 31, 2008, the aggregate amount of loans outstanding in the Chilean banking system grew by 103.2% in nominal terms and 64.3% in real terms to Ch\$70,251,139 million. A slowdown or negative growth rate of the Chilean economy could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses. See Item 4. Information on the Company Regulation and Supervision and Item 4. Information on the Company Selected Statistical Information.

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

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

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

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

The Chilean market for financial services is highly competitive. We compete with other Chilean private sector domestic and foreign banks, with Banco del Estado de Chile, a public sector bank, and with large department stores that make consumer loans to a large portion of the Chilean population. In 2002, two new private sector banks affiliated with Chile's largest department stores began their operations, mainly as consumer and medium-sized corporate niche banks. In 2003, a new niche bank oriented at servicing corporations began its operations, and in 2004, two new retail banks commenced operations. The retail market (comprised of individuals and small- and medium-sized companies) has become the target market of several banks, and competition with respect to these customers is likely to increase. As a result, net interest margins (after credit risk) in these sub-segments are likely to decline.

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

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

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

Although we historically focused on banking for the wholesale market and high income individuals, an increasing proportion of our retail market consists of middle-sized and small companies (approximately 6.1% of the value of our total loan portfolio at December 31, 2008, including companies with annual sales of up to Ch\$1,400 million) and, to a lesser extent, of lower income individuals (approximately 4.5% of the value of our total loan portfolio at December 31, 2008, including individuals with monthly incomes between Ch\$100,000 and Ch\$400,000). Our strategy includes increasing lending and providing other services to attract additional retail customers. These customers are likely to be more severely affected by adverse developments in the Chilean economy than large corporations and high-income individuals. Consequently, in the future we may experience higher levels of past due loans, which could result in higher allowances for loan losses. The levels of past due loans and subsequent write-offs may be materially higher in the future. See Item 4. Information on the Company Business Overview Principal Business Activities.

**Table of Contents*****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, 2008, Sociedad Administradora de la Obligacion Subordinada S.A., or SAOS, our affiliate, holds 35.35% of our shares as a consequence of our 1996 reorganization. This reorganization was due in part to our 1989 repurchase from the Central Bank of certain non-performing loans that we had previously sold to the Central Bank and later exchanged for subordinated debt without a fixed term. Under the terms of a repayment obligation in favor of the Central Bank that SAOS assumed to replace the Central Bank subordinated debt, SAOS may be required to sell some of our shares to the public. See Item 4. Information on the Company History and Development of the Bank History The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt. See Note 34 to our audited consolidated financial statements.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile S.A., a holding company that controls us and SAOS, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. As a result of the capital increase agreed upon in the Extraordinary Shareholders Meeting held in May 2007, the share dividend paid in May 2006, May 2007 and June 2009, and the merger with Citibank Chile in January 2008, the percentage of our shares held by SAOS further decreased to 34.6%. Dividends received from us are the sole source of SAOS's revenue, which it must apply to repay this indebtedness. However, under SAOS's agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire accumulated deficit amount. As of April 30, 2009, SAOS maintained a surplus with the Central Bank of Ch\$86,819 million, equivalent to 6.58% of our capital and reserves. As of the same date, Ch\$263,719 million would have represented 20% of our capital and reserves. If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth, and to distribute stock dividends among our shareholders, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. The shareholders of SM-Chile will have a right of first refusal with respect to that sale.

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

***The results of our operations are affected by inflation and interest rate volatility.***

The results of our operations depend to a great extent on our net interest revenue, which represented 70.9% of our operating revenue in 2008. Changes in inflation and in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities as well as in the derivative portfolio, resulting in a reduction in our net revenue. Inflation and 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 inflation rate was 3.40% in 2006, 4.39% in 2007 and 8.71% in 2008. The average annual short-term interest rate (based on the rate paid by Chilean financial institutions) for 90 to 360 day deposits was 2.83% in 2006, 2.20% in 2007 and 2.23% in 2008. The average long-term interest rate based on the Central Bank's ten-year bonds was 2.98% in 2006, 2.9% in 2007 and 3.24% in 2008. See Item 5. Operating and Financial Review and Prospects Operating Results Overview Inflation and Item 5. Operating and Financial Review and Prospects Operating Results Overview Interest Rates.

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

As all large financial institutions, we 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.

### ***Complaint of Consejo de Defensa del Estado***

On March 11, 2009, the Consejo de Defensa del Estado de la Republica de Chile filed a complaint against Banco de Chile in the United States District Court of the Southern District of Florida. The complaint alleges substantive civil violations of the Racketeer Influenced & Corrupt Organizations Act ( RICO ), RICO conspiracy, aiding and abetting RICO violations, and aiding and abetting a breach of fiduciary duty. The complaint seeks redress for funds allegedly misappropriated from the Chilean government by the former President of Chile, Augusto Pinochet, and it alleges that Banco de Chile participated in conduct related to a money laundering scheme. Damages being sought are \$22 million, which amount is subject to trebling pursuant to RICO.

It is not possible to predict the outcome of this matter, or what impact, if any, it might have. As of the date of filing this annual report, Banco de Chile has not been served with the complaint, and it has not waived (and does not waive by virtue of filing this annual report) any of its rights with respect to service of process of the complaint. Banco de Chile believes it has meritorious defenses to the complaint, and it intends to defend this matter vigorously if and when it is served.

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

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

As of June 17, 2009, LQ Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco S.A., and Citigroup Chile S.A. beneficially owned approximately 61.7% of our outstanding voting rights. These principal shareholders are in a position to elect a majority of the members of our board of directors, direct our management and control substantially all matters that are to be decided by a vote of the shareholders, including fundamental corporate transactions.

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

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

While our ADSs have been listed on the New York Stock Exchange, or NYSE, since the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will be sustained. During 2008, a daily average of 17,721 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

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Stock Exchange, the market for our shares in Chile is small and illiquid. At December 31, 2008, approximately 11.78% of our outstanding shares were 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 international financial markets may adversely affect the market price of the ADSs and shares.***

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

In particular, since August 2007 to date, there has been significant volatility in worldwide financial markets due to the announcement, by several U.S. banks and financial institutions, of significant write-downs related to their exposure to mortgage-backed securities and other financial instruments. Although we, and our subsidiaries, are not directly exposed to the U.S. housing credit market and do not directly hold any assets related to such financial instruments, these write-downs, combined with other factors, have led to a tightening in the credit markets and to a downturn in the U.S. economy, which has impacted the Chilean economy. In fact, starting in late 2008 and continuing into 2009, many countries in Latin America, including Chile, are experiencing economic slowdowns or recessions. Any of these developments could adversely affect the market price of the ADSs and shares.

### ***In the past, Chile has imposed controls on foreign investment and repatriation of investments that affected investments 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, 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.

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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 35% tax from any dividend we pay to you.*

ADSs owners are entitled to receive dividends on the underlying shares to the same extent as the holders of shares. Dividends received by ADSs owners 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**

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

A substantial amount of the transactions in which we participate are with customers doing business in Chile. Accordingly, our ability to increase the amount of business volume 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 global financial system has been experiencing difficulties since August of 2007 and the global financial markets have deteriorated very significantly since September of 2008. The recent global financial crisis has had significant consequences worldwide, including in Chile. It has generally caused capital markets volatility, unavailability of credit, volatile exchange rates and a general slowdown of the world economy. 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.

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

The Chilean government's economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could affect the dollar value of our common stock and our ADSs. The peso has been subject to large fluctuations in the past and could continue with this trend in the future. In the period from December 31, 2007 to December 31, 2008, the value of the U.S. dollar relative to the Chilean peso increased approximately 26.7%, as compared to a 7.2% decrease in value in the period from December 31, 2006 to December 31, 2007.

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

Our results of operations may be affected by fluctuations in the exchange rates between the peso and the U.S. dollar despite our policy and Chilean regulations related to the general avoidance of material exchange rate mismatches. In order to reduce the effect of exchange rate mismatches we enter into foreign exchange derivative transactions. As of December 31, 2008, the net position of our foreign currency denominated assets and Chilean peso-denominated assets, which contain repayment terms linked to changes in

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foreign currency exchange rates, exceeded our foreign currency denominated liabilities and Chilean peso-denominated liabilities, which contain repayment terms linked to changes in foreign currency exchange rates, by Ch\$51,114 million, or 4.2% of our paid-in capital and reserves.

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

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

The level of inflation generally has moderated in recent years, especially in comparison to the periods of higher inflation in the 1980s and 1990s. High levels of inflation in Chile could adversely affect the Chilean economy and, indirectly, the value of our ADSs. The annual rate of inflation (as measured by changes in the Consumer Price Index and as reported by the Chilean National Institute of Statistics) during the last five years ended December 31, 2008 and the first five months of 2009 was:

Year	Inflation (Consumer Price Index)
2004	2.4
2005	3.7
2006	2.6
2007	7.8
2008	7.1
2009 (through May 31)	(1.1)

Source: Chilean National Institute of Statistics

Although we benefit from inflation in Chile due to the structure of our assets and liabilities (i.e., we have a significant net asset position 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. See Item 5. Operating and Financial review and Prospects Inflation.

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

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

There are also important differences between Chilean and U.S. accounting and financial reporting standards. As a result, Chilean financial statements and reported earnings generally differ from those that would be reported based on U.S. accounting and reporting standards. See Note 34 to our audited consolidated financial statements.

As a regulated financial institution, as of December 2008, we are required to submit to the Chilean Superintendency of Banks unaudited consolidated and 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 and also makes summary financial information available within approximately three weeks of receipt. Such documentation is also published monthly in Banco de Chile's website in both Spanish and in English.

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Such disclosure differs in a number of significant aspects 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 aspects. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, the Chilean securities markets are not as highly regulated and closely supervised as the U.S. securities markets.

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

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

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**FORWARD-LOOKING STATEMENTS**

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

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

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

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

statements of assumptions underlying such statements.

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

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

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

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

increased costs;

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

the factors discussed under Risk Factors.

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



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**Item 4. Information on the Company**

**HISTORY AND DEVELOPMENT OF THE BANK**

**Overview**

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

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

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

wholesale market;

retail market;

treasury and money market operations; and

operations through subsidiaries.

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

As of December 31, 2008, we offered international banking services directly through our trade services subsidiary in Hong Kong, our representative offices in Sao Paulo and Beijing and a worldwide network of correspondent banks. In addition to our commercial banking operations, through our subsidiaries, we offer a variety of non-banking financial services including securities brokerage, mutual fund management, investment banking services, factoring, insurance brokerage, securitization, collection and sales services.

As of December 31, 2008, we had:

total assets of Ch\$18,128,442 million (U.S.\$28,816 million);

loans outstanding of Ch\$13,649,005 million (U.S.\$21,696 million);

deposits of Ch\$11,479,851 million (U.S.\$18,248 million); and

equity (including net income and minority interest) of Ch\$1,297,743 million (U.S.\$2,063 million).

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According to information published by the Chilean Superintendency of Banks, as of December 31, 2008, we were the second largest private bank in Chile in terms of total loans (excluding interbank loans) with a market share of 19.4 %.

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We are headquartered in Santiago, Chile and, as of December 31, 2008, had 14,580 employees and delivered financial products and services through a nationwide network of 371 branches and 1,584 ATMs that form part of a network of 7,056 ATMs operated by Redbanc S.A., a company owned by us and 13 other private sector financial institutions.

### **History**

We were established in 1893 as a result of the merger of Banco Nacional de Chile, Banco Agrícola and Banco de Valparaíso, which created the largest privately held bank in Chile. We believe that we remained the largest private bank in Chile until 1996. Beginning in the early 1970s, the Chilean government assumed control of a majority of Chilean banks and all but one of the foreign banks operating at the time closed their branches and offices in Chile. Throughout this era, we remained privately owned, with the Chilean government owning participating shares which it sold to private investors in 1975. We developed a well-recognized name in Chile and expanded our operations in foreign markets where we developed an extensive network of correspondent banks. In the early twentieth century, we established a representative office in London, which we maintained until 1985, when our European operations were moved to Frankfurt. The Frankfurt office was closed in 2000, when our foreign operations were centralized at the New York branch. In 2008, we sold our US branches to Citigroup in connection with our merger with Citibank Chile. In 1987 and 1988, we established four subsidiaries to provide the full range of financial products and services permitted by the General Banking Law and in 1999, we established our insurance brokerage and factoring subsidiaries.

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

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

#### ***Merger with Citibank Chile***

On December 27, 2007 our shareholders approved the merger of Citibank Chile into Banco de Chile, which became effective on January 1, 2008. In addition, we entered into a Global Connectivity Agreement with Citigroup Inc. to offer joint global financial services to customers in Chile. During 2008, we integrated Citibank Chile's technological platforms with ours and also established a new organizational structure in order to satisfy our customers' needs and to achieve important synergies. We concluded the merger process at the end of 2008 with the integration of Citibank Chile's consumer business with ours.

#### ***Technological Projects***

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

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

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

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

During 2008, our priorities were focused on operational and technological stabilization after the merger with Citibank Chile. We have implemented critical initiatives such as the updating of the core database, which included hardware upgrades, the improvement of the batch process time and the performance of our front-end systems and middleware components.

### ***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\$1,330,259 million, or U.S.\$2,115 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.

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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 aspects. The most important of these included a rescheduling of the debt for a term of 40 years providing for equal annual installments and a pledge of our shares as collateral for such debt. The Central Bank indebtedness bears interest at a rate of 5.0% per year and is denominated in UF. See [Item 5. Operating and Financial Review and Prospects](#) [Operating Results](#) [Overview](#) [Inflation](#) [UF-denominated Assets and Liabilities](#) for a further explanation of UF.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile, a holding company that beneficially owns SAOS and us, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. As a result of the capital increase agreed upon in the Extraordinary Shareholders Meeting held in May 2007, the share dividend paid in May 2006, May 2007, and June 2009, and the merger with Citibank Chile in January 2008, the percentage of our shares held by SAOS further decreased to 34.6%. Dividends received from us are the sole source of SAOS's revenue, which it must apply to repay this indebtedness. However, under SAOS's agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our paid-in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire accumulated deficit amount. As of April 30, 2009, SAOS maintained surplus with the Central Bank of Ch\$86,819 million, equivalent to 6.58% of our paid-in capital and reserves. As of the same date, Ch\$263,719 million would have represented 20% of our paid-in capital and reserves. See [Item 3. Key Information](#) [Risk Factors](#) [Risks Relating to our Operations and the Banking Industry](#). Our affiliate may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends. See Note 34 to our audited consolidated financial statements.

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

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

The following table reflects our capital expenditures in each of the three years ended December 31, 2006, 2007 and 2008:

	For the Year Ended December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
Computer equipment	Ch\$ 11,004	Ch\$ 14,223	Ch\$ 5,440
Furniture, machinery and installations	12,567	11,749	9,266
Real estate	1,944	1,232	1,138
Vehicles	380	895	467
Subtotal	25,895	28,099	16,311
Software	12,717	8,067	8,261
Total	Ch\$ 38,612	Ch\$ 36,166	Ch\$ 24,572

Our budget for capital expenditures in 2009 is Ch\$41,480 million. Capital expenditures planned for 2009 consist mainly of expenditures for information technology and infrastructure, which are aimed at improving our efficiency and productivity.

Regarding technology capital expenditures, during 2009 we expect that the main disbursements will be related to:

the final stages of our new checking account system, including the integration with Citibank's regional and global systems;

the roll-out of our new teller system as well as the Customer Relationship Management (CRM) sales platform in all CrediChile branches;

the upgrade of our internet customer authentication platform; and

the implementation of biometric solutions for customer transactions.

In terms of infrastructure, our 2009 capital expenditures are expected to involve the opening of new branches and ATMs, the refurbishment of some existing branches and the performance of maintenance in the ordinary course of our business.

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

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

**Profitable Business Growth**

Our banking strategy is focused on those businesses which make significant contributions and have risks that are bounded, and on retaining and strengthening the relationship with our customers. We seek a sustained growth, especially in higher-margin segments and in those business areas that provide a strong growth potential. Our focus on growth has been primarily placed on Retail segments, large companies and the Treasury

segment, as we seek to achieve the same strong position in those areas that we have in the Large Corporations segment.

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Along with our traditional lending activities, we have increased our focus on other sources of revenue, such as foreign exchange derivative transaction, fee-based products and services. In this regard, our consolidated income from fees and other services has continued to be an important source of income in recent years, achieving Ch\$187,773 million (U.S.\$298 million or 23.9% of operating revenues) in 2007 and Ch\$215,862 million (U.S.\$ 343 million or 19.7% of operating revenues) in 2008. We seek to continue to increase our fee-based revenues by developing new services and by strategically cross-selling these services to our base of existing retail and wholesale banking customers. For our wholesale banking customers, we intend to actively market new and existing fee-based services such as receivables collection, payroll services, supplier payments, investment advisory services and cash management. For our retail banking customers, we intend to increase revenues from new and existing fee-based services such as general checking services, ATMs, credit cards, mutual funds, securities brokerage and insurance brokerage.

### ***Continued Improvement of our Efficiency***

Our efficiency approach is focused on seeking higher levels of productivity and cost control. We believe that a low-cost structure will become increasingly important to our ability to compete profitably. To achieve this goal, we have invested in (1) technology development, (2) developing business processes that are simpler and more manageable, and (3) secure and modern platforms that allow better time response and higher productivity.

We have invested heavily in technology during recent years (approximately Ch\$99,350 million (U.S.\$158 million) in the last three years) and we plan to continue focusing on technology in the future to achieve further improvements in customer service and operating efficiency.

In 2008, our consolidated operating expenses represented approximately 52.3% of our operating revenue. We intend to improve this ratio in the coming years by expanding the volume of our business and enhancing our internal processes, cost controls and monitoring.

### ***High Standards of Service Quality***

Given the importance of service quality to loyalty and retention of our customers, continuous improvement is required. We have developed and implemented a series of measures to improve our quality of service, such as: (1) the implementation of a new value proposition with emphasis on excellence service, (2) the strengthening of the quality service delivered to customers through an ongoing improvement plan that identifies the critical behaviors of our customers, developing an attention protocol for different kind of clients, (3) the transfer of business operation practices from high service quality branches to lower service quality branches, (4) the implementation of several enhancements to our Internet channel and business units in order to increase the processing capacity of information, allowing us to manage larger volumes of business with better time response to customers, (5) the development of a more effective call center platform and (6) the redistribution of our corporate portfolios among corporate executives, allowing us to obtain a deeper specialization and to improve the quality of our service.

### ***Excellence in Human Resources Management***

In order to succeed in the long term, we believe that it is essential to have highly qualified and motivated employees with a strong commitment to the goals and values of our institution. We seek to establish a distinctive culture among our employees fostering (1) a clear focus on the customer, (2) confidence and leadership, (3) meritocracy and high performance, (4) collaboration and teamwork, (5) accountability and empowerment, and (6) innovation and continuous improvement.

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We intend to make all necessary efforts to remain as one of the most respected companies at the occupational level, developing and fostering one of the most important assets of the Bank, represented by a team of excellence that is highly committed to our mission and the institutional values that represent us.

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

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**Ownership Structure**

The following diagram shows the ownership structure as of June 17, 2009:

**Principal Business Activities**

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

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The following table provides information on the composition of our loan portfolio and our consolidated net income before tax for the year ended December 31, 2008, allocated among our principal business segments:

	<b>Loans</b>		<b>Consolidated net income <sup>(1)(2)</sup></b>	
	<b>(in millions of constant Ch\$ as of December 31, 2008, except for percentages)</b>			
Retail market	Ch\$ 5,756,906	42.2%	Ch\$ 157,894	
Wholesale market	7,640,021	56.0	128,773	
Treasury and money market operations			108,664	
Operations through subsidiaries	252,078	1.8	26,335	
Other (adjustments and eliminations)			(149,239)	
<b>Total</b>	<b>Ch\$ 13,649,005</b>	<b>100.0%</b>	<b>Ch\$ 272,427</b>	

(1) The net income 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 aspects from breakdowns of our operating income for financial reporting and regulatory purposes. Separate information on the operations, assets and income of our financial services subsidiaries and affiliates is provided below under Operations through Subsidiaries.

(2) The results associated with our gap management (interest rate mismatches) have been allocated in the treasury and money market operations segment.

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

	<b>For the Year Ended December 31,</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>(in millions of constant Ch\$ as of December 31, 2008)</b>		
Retail market	Ch\$ 367,223	Ch\$ 403,951	Ch\$ 547,182
Wholesale market	161,787	186,222	293,016
International banking <sup>(1)</sup>	18,075	11,863	
Treasury and money market operations	50,533	87,801	136,461
Operations through subsidiaries	84,329	104,809	119,920
Other (adjustments and eliminations)	16,114	(9,966)	901
<b>Total</b>	<b>Ch\$ 698,061</b>	<b>Ch\$ 784,680</b>	<b>Ch\$ 1,097,480</b>

(1) As part of the merger with Citibank Chile, Banco de Chile sold its Miami and New York branches to Citibank N.A. 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>2006</b>	<b>2007</b>	<b>2008</b>
	<b>(in millions of constant Ch\$ as of December 31, 2008)</b>		
Chile	Ch\$ 679,861	Ch\$ 772,975	Ch\$ 1,097,334
Banking operations	586,097	662,127	939,806

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Operations through subsidiaries	93,764	110,848	157,528
Foreign operations	18,200	11,705	146
New York	16,255	9,564	
Miami	1,648	1,922	
Operations through subsidiaries	297	219	146
Total	Ch\$ 698,061	Ch\$ 784,680	Ch\$ 1,097,480

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

Our retail market business segment serves the financial needs of individuals and middle market companies through our branch network comprised of 371 branches.

As of December 31, 2008, loans to our retail market represented 42.2% of our total loans outstanding and our retail market business segment accounted for approximately Ch\$179,710 million of our net income before tax for the year ended December 31, 2008.

The following table sets forth the composition of our retail market business segment's loan portfolio as of December 31, 2008:

	<b>As of December 31, 2008</b> <b>(in millions of constant</b> <b>Ch\$ as of December 31, 2008,</b> <b>except for percentages)</b>	
Commercial loans	Ch\$ 1,576,694	27.4%
Residential mortgage loans	2,301,574	40.0
Consumer loans	1,878,638	32.6
Total	Ch\$ 5,756,906	100.0%

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

**Individuals and Middle Market Division**

The individuals and middle market division is responsible for offering financial services to individuals with incomes of over Ch\$400 thousand monthly (or Ch\$4.8 million annually) and to small and medium-sized companies with annual sales of up to Ch\$1,400 million. The individuals and middle market division manages that portion of our branch network that operates under the brand names Banco Chile and Banco Edwards/Citi. We had 227 such branches at December 31, 2008.

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

At December 31, 2008, the individuals and middle market division served more than 571,000 individual customers and over 54,000 companies, resulting in outstanding loans to approximately 535,000 debtors, including approximately 60,109 residential loans, 46,018 commercial loans, 463,000 approved lines of credit, 256,967 other consumer loans and 658,871 credit card accounts. At the same date, we maintained 570,292 checking accounts, 163,939 savings accounts and 156,282 time deposits related to individuals.

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As of December 31, 2008, loans originated by our individuals and middle market division represented 37.7% of our total outstanding loans. The following table sets forth the composition of our portfolio of loans to individuals and middle market companies as of December 31, 2008:

	<b>As of December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008, except for percentages)</b>	
<b>Commercial Loans</b>		
Commercial credit	1,338,759	26.0
Leasing contracts	155,354	3.0
Other loans	76,402	1.5
<b>Total Commercial Loans</b>	<b>Ch\$ 1,570,515</b>	<b>30.5%</b>
<b>Residential Mortgage Loans</b>	<b>Ch\$ 2,236,897</b>	<b>43.5%</b>
<b>Consumer Loans</b>		
Installment loans	810,798	15.8
Credit cards	280,386	5.4
Lines of credit	247,177	4.8
<b>Total Consumer Loans</b>	<b>Ch\$ 1,338,361</b>	<b>26.0%</b>
<b>Total</b>	<b>Ch\$ 5,145,773</b>	<b>100.0%</b>

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

*Installment Loans*

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

At December 31, 2008, we had Ch\$ 810,798 million in installment loans to individuals, which accounted for 43.2% of the retail market business segment consumer loans. A majority of installment loans are denominated in pesos and are payable monthly.

*Residential Mortgage Loans*

As of December 31, 2008, there were outstanding residential mortgage loans to individuals of Ch\$2,236,897 million, which represented 43.5% of the retail market total loans and 16.4% of our total loan portfolio. A feature of our mortgage loans to individuals is that mortgaged property typically secures all of a mortgagor's credit with us, including credit card and other loans.

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



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

As of December 31, 2008, 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 14.1% of the residential mortgage loans in the Chilean banking system and approximately 18.7% of such loans made by private sector banks.

### *Credit Cards*

As of December 31, 2008, we issued Visa, MasterCard and Diners 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, Global Pass and Premium Club ), and 75 affinity card groups, most of which are associated with our co-branded programs.

As of December 31, 2008, we had 697,729 valid credit card accounts, with 883,536 credit cards to individuals. Total charges on our credit cards during 2008 amounted to Ch\$ 1,139,510 million, with Ch\$1,022,952 million corresponding to purchases and service payments in Chile and abroad and Ch\$ 116,558 million corresponding to cash advances (both within Chile and abroad). These charge volumes represent a 34.5% market share in terms of volume of use of bank credit cards issued in Chile.

As of December 31, 2008, our credit card loans to individuals amounted to Ch\$ 280,386 million and represented 14.9% of our retail market business segment's consumer loans.

Two Chilean companies that are affiliated with us, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2008, Transbank S.A. had 15 shareholders and Nexus S.A. had seven shareholders, all of which are banks. As of December 31, 2008, our equity ownership in Transbank S.A. was 26.2% and our equity interest in Nexus S.A. was 25.8%.

We believe that the Chilean market for credit cards has a high potential for growth, especially among customers in the lower-middle and middle-income bracket, as the average merchant fees will continue to decline. We also believe that, in addition to the other banks that operate in Chile, our main competitors are department store cards and other non-banking businesses involved in the issuance of credit cards.

### *Debit Cards*

We have different types of debit cards. Depending on their specifications, these cards can be used for banking transactions on the ATMs that operate on the local network, Redbanc, the Visa International PLUS network, the local network of merchants participating in the local Redcompra debit program or the international network of merchants associated with the Electron program. We have given these debit cards different names (*Chilecard, Chilecard Plus, Chilecard Electron, Chilecard Empresas, Banjoven, Cheque Electronico, Multiedwards, Cuenta Directa, Cuenta Facil, Cuenta Familiar and Citicard*) based on their specific functions and the relevant brand and target market to which they are oriented. As of December 31, 2008, we had a 43.8% market share of debit card transactions, with approximately 46.5 million transactions performed as of that date.

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### *Lines of Credit*

We had approximately 463,458 approved lines of credit to individual customers as of December 31, 2008 and outstanding advances to 326,407 individuals totaling Ch\$247,177 million, or 4.3% of the retail market total loans.

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

### *Deposit Products*

We seek to increase our deposit-taking activities as a means of diversifying our sources of funding. We believe that the deposits of our individual customers provide us with a relatively low cost, stable funding source, as well as the opportunity to cross-market our other products and services. We offer checking accounts, time deposits and savings accounts to our individual customers. Checking accounts are peso-denominated and mostly non-interest bearing (approximately 0.1% of total checking accounts of the individual and middle market division are interest-bearing) and savings accounts are denominated in UF and bear interest at a fixed rate. Time deposits are denominated in pesos, UF and U.S. dollars. Most time deposits bear interest at a fixed rate with a term of 30 to 360 days.

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

As of December 31, 2008, we administered 516,385 checking accounts for approximately 492,337 individual customers with an aggregate balance of Ch\$708,620 million. At such date, our checking account balances totaled approximately Ch\$2,534,753 million and represented 15.1% of our total liabilities.

The principal financial services offered to small and medium size companies with annual sales of up to Ch\$1,400 million by the individuals and middle market division include a complete range of products, such as various financing options, support in import and export transactions, collection services, payments and collections, leasing agreements, factoring services, checking account services, investment management, insurance brokerage, currency trading, transfers and payments to and from abroad. As of December 31, 2008, we had approximately 51,020 middle market companies with checking accounts and 30,088 debtors.

### *Commercial Credits*

Our individuals and middle market division's commercial loans, which mainly consist of project financing and working capital loans, are denominated in pesos, UF or U.S. dollars. Commercial loans may have fixed or variable rates of interest and generally mature between one and three months from the date of the loan. As of December 31, 2008, our individuals and middle market companies had outstanding commercial loans of Ch\$1,415,161 million, representing 24.6% of the retail market business segment's total loans and 10.4% of our total loans at that date.

### *Leasing Contracts*

Leasing contracts are financing leases for capital equipment and property. Leasing contracts may have fixed or variable rates of interest and generally mature between one and five years for equipment and between five and twenty years for property. Most of these contracts are denominated in UF. As of December 31, 2008, our individuals and middle market companies had outstanding leasing contracts of Ch\$155,354 million, representing 2.7% of the retail market and 1.1% of our total loans at that date.

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*Mortgage Loans*

Mortgage loans granted to middle market companies are non-residential mortgage loans made to finance offices, land and other real estate. Mortgage loans are denominated in UF and generally have maturities of between eight and 12 years. As of December 31, 2008, middle market companies had outstanding mortgage loans of approximately Ch\$178,284 million, representing 3.5% of the retail market business segment's total loans and 1.3% of our total loans at such date.

*Banco CrediChile Division, or Banco CrediChile*

The Banco CrediChile division offers loans and other financial services to the lower-middle to middle income portions of the Chilean population, which historically have only been partially served by banking institutions. This bracket includes individuals whose monthly incomes fluctuate between Ch\$100,000 and Ch\$400,000 and small businesses. Banco CrediChile represents a distinct delivery channel for our products and services in this bracket, maintaining a separate brand and network of 144 Banco CrediChile branches. Banco CrediChile was established in 2004 from what was formerly our consumer banking division. In 2008, the business of Banco Credichile was combined with the consumer division of Atlas as part of the merger with Citibank Chile and thus became the leader in this segment in Chile.

Banco CrediChile offers our customers a range of products, including consumer loans, credit cards, auto loans and residential mortgage loans and a special demand deposit account (see *Bancuenta* below) targeted at low-income customers. As of December 31, 2008, Banco CrediChile had approximately 450,709 customers and total loans outstanding of Ch\$611,134 million, representing 4.5% of our total loan portfolio at that date.

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The following table sets forth the composition of our portfolio of loans to Banco CrediChile as of December 31, 2008:

	As of December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008, except for percentages)	
Commercial loans	Ch\$ 6,179	1.0%
Residential mortgage loans	Ch\$ 64,677	10.6%
Consumer loans		
Installment loans	508,926	83.3
Credit cards	30,428	5.0
Lines of credit	923	0.1
Total consumer loans	Ch\$ 540,277	88.4%
 Total	 Ch\$ 611,133	 100.0%

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

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

*Consumer Lending*

Banco CrediChile provides short- to medium-term consumer loans and credit card services. As of December 31, 2008, Banco CrediChile had approximately 371,371 consumer loans that totaled Ch\$508,926 million outstanding. As of the same date, Banco CrediChile customers had 214,506 valid credit card accounts, with outstanding balances of Ch\$30,428 million.

*Bancuenta*

Banco CrediChile introduced Bancuenta as a basic deposit product that provides consumers flexibility and ease of use, which allows us to tap a section of the consumer market that previously was not part of the banking system. The Bancuenta account is a non-interest bearing demand deposit account without checking privileges targeted at customers who want a secure and comfortable means of managing and accessing their money. The customer may use the ATM card linked to the Bancuenta account (which may include a revolving line of credit) to make deposits or automatic payments to other Banco CrediChile accounts through a network of 7,056 ATMs available through the Redbanc network.

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As of December 31, 2008, Banco CrediChile had approximately 655,179 Bancuenta accounts. Bancuenta account holders pay an annual fee, a fee related to the number of withdrawals on the Bancuenta line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a Bancuenta account are withdrawn automatically on a monthly basis from funds available in the account. Bancuenta allows us to offer our wholesale customers the ability to pay their employees by direct deposit of funds into the individual employee's account at Banco CrediChile. We believe this product can lead to stronger long-term relationships with our wholesale customers and with the employees of such customers.

**Wholesale Market**

Our wholesale market business segment serves the needs of corporate customers with annual sales in excess of Ch\$1,400 million. As of December 31, 2008, loans made by this business segment totaled approximately Ch\$7,640,021 million and represented 56.0% of our total loan portfolio. Our wholesale banking business segment accounted for approximately Ch\$146,708 million of our net income before tax for the year ended December 31, 2008.

The following table sets forth the composition of our portfolio of loans to the wholesale market as of December 31, 2008:

	<b>As of December 31, 2008</b>		
	<b>(in millions of constant Ch\$ as of December 31, 2008, except for percentages)</b>		
Commercial credits	Ch\$	5,167,658	67.6%
Foreign trade loans		1,505,087	19.7
Leasing loans		568,703	7.5
Factoring loans		236,876	3.1
Other loans		161,697	2.1
Total	Ch\$	7,640,021	100.0%

As of December 31, 2008, we had approximately 8,628 wholesale debtors. Our wholesale customers are engaged in a wide spectrum of industry sectors. As of December 31, 2008, this business segment's loans were mainly related to:

financial services (approximately 29.5% of all loans made by this business segment);

trade (approximately 15.5% of all loans made by this business segment);

manufacturing (approximately 13.5% of all loans made by this business segment);

construction (approximately 11.5% of all loans made by this business segment);

agriculture, forestry and fishing (approximately 7.2% of all loans made by this business segment); and

community, social and personal services (approximately 5.6% of all loans made by this business segment).

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



**Table of Contents***Large Corporations Division*

The large corporations division is oriented towards providing services to corporations that sell more than Ch\$70 billion annually. This division's customers include a large proportion of Chile's publicly traded companies, subsidiaries of multinationals and conglomerates, including those in the financial, commercial, manufacturing, industrial and infrastructure sectors, as well as projects and concessions.

As of December 31, 2008, we had 606 large corporations debtors. Loans to large corporations totaled approximately Ch\$3,923,232 million as of December 31, 2008, representing 28.7% of our total loans at that date.

The following table sets forth the composition of our portfolio of loans by the large corporations division as of December 31, 2008:

	<b>As of December 31, 2008</b>		
	<b>(in millions of constant Ch\$ as of December 31, 2008, except for percentages)</b>		
Commercial credits	Ch\$	2,946,005	75.1%
Foreign trade loans		630,312	16.1
Leasing loans		73,612	1.9
Factoring loans		172,690	4.4
Other loans		100,613	2.5
 Total	 Ch\$	 3,923,232	 100.0%

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

We are party to approximately 837 payment service contracts and approximately 210 collection service contracts with large corporations. We believe that cash management and payment service contracts provide a source of low-cost deposits and the opportunity to cross-market our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our large corporate customers, providing centralized collection services for their accounts receivable and other similar payments.

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

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

**Table of Contents***Large Companies Division*

The large companies division provides a broad range of financial products such as electronic banking, leasing, foreign trade and financial consultancy to companies with annual sales between Ch\$1,400 million and Ch\$70 billion. Customers within this division are those related to commercial, manufacturing, the agriculture, forestry, fishing, infrastructure and real estate sectors, as well as projects and concessions.

As of December 31, 2008, we had 8,022 large companies debtors. Loans to large companies totaled approximately Ch\$3,716,789 million as of December 31, 2008, representing 27.2% of our total loans at that date.

The following table sets forth the composition of our portfolio of loans by the large companies division as of December 31, 2008:

	<b>As of December 31, 2008</b>		
	<b>(in millions of constant Ch\$ as of December 31, 2008, except for percentages)</b>		
Commercial credits	Ch\$	2,221,653	59.8%
Foreign trade loans		874,775	23.5
Leasing loans		495,091	13.3
Factoring loans		64,186	1.7
Other loans		61,084	1.7
 Total	 Ch\$	 3,716,789	 100.0%

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

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

*Treasury and money market operations*

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

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

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

Our security portfolio as of December 31, 2008 amounted to Ch\$1,071,438 million, of which 39.5% consisted of securities issued by the Central Bank and the Chilean Government, 9.6% consisted of securities from foreign issuers, 46.5% consisted of securities issued by local financial institutions and 4.4% consisted of securities issued by Chilean corporate issuers. Our investment strategy is designed with a view to supplementing our expected profitability, risks and economic variable projections. Our investment strategy is kept within regulatory limits as well as internal limits defined by our finance committee.

The international area, also part of the treasury and money market operations segment, manages relations with correspondent banks throughout the world, ensuring the fluent functioning of international payments and obtaining foreign currency financing for the Bank itself. As of December 31, 2008, we have established a network of approximately 900 correspondent banks, credit relations with approximately 250 correspondent banks and account relationships with approximately 42 correspondent banks.

**Operations through Subsidiaries**

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

The following table sets forth information with respect to our financial services subsidiaries as of December 31, 2008:

	As of or for the year ended December 31, 2008		
	Assets	Equity	Net Income (loss)
	(in millions of constant Ch\$ as of December 31, 2008)		
Banchile Corredores de Bolsa S.A.	Ch\$ 465,118	Ch\$ 65,705	Ch\$ 10,016
Banchile Administradora General de Fondos S.A.	46,855	44,764	5,758
Banchile Factoring S.A.	245,753	33,220	925
Banchile Corredores de Seguros Ltda	13,447	11,257	3,595
Socofin S.A.	5,270	572	112
Banchile Asesoría Financiera S.A.	5,469	3,869	4,743
Banchile Trade Services Limited	724	695	113
Banchile Securitizadora S.A.	522	408	(42)
Promarket S.A.	2,353	933	598
Citibank Agencia de Valores S.A. <sup>(1)</sup>	Ch\$ 6,876	Ch\$ 6,746	Ch\$ (144)
<b>Total</b>	<b>Ch\$ 792,387</b>	<b>Ch\$ 168,169</b>	<b>Ch\$ 25,674</b>

- (1) As a result of the merger with Citibank Chile, Banco de Chile, as the legal successor and continuing entity of Citibank Chile, holds title to all of the rights that belonged to the corporation Citibank Agencia de Valores S.A., which consequently became a subsidiary of Banco de Chile in accordance with article 70 of the General Banking Law and Chapter 11-6 of the Updated Compilation of Standards. Effective January 1, 2009, Citibank Agencia de Valores S.A. merged with and into Banchile Corredores de Bolsa S.A.

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The following table sets out our ownership interest in our financial services subsidiaries as of December 31, 2008:

	Ownership Interest		
	Direct (%)	Indirect (%)	Total (%)
Banchile Trade Services Limited (Hong Kong)	100.00		100.00
Banchile Administradora General de Fondos S.A.	99.98	0.02	100.00
Banchile Asesoría Financiera S.A.	99.96		99.96
Banchile Corredores de Seguros Ltda.	99.83	0.17	100.00
Banchile Corredores de Bolsa S.A.	99.68	0.32	100.00
Banchile Factoring S.A.	99.75	0.25	100.00
Banchile Securitizadora S.A.	99.00	1.00	100.00
Socofin S.A.	99.00	1.00	100.00
Promarket S.A.	99.00	1.00	100.00
Citibank Agencia de Valores S.A. <sup>(1)</sup>	99.90		99.90

- (1) As a result of the merger with Citibank Chile, Banco de Chile, as the legal successor and continuing entity of Citibank Chile, holds title to all of the rights that belonged to the corporation Citibank Agencia de Valores S.A., which consequently became a subsidiary of Banco de Chile in accordance with article 70 of the General Banking Law and Chapter 11-6 of the Updated Compilation of Standards. Effective January 1, 2009, Citibank Agencia de Valores S.A. merged with and into Banchile Corredores de Bolsa S.A.

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

*Securities Brokerage Services*

We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores de Bolsa S.A. is registered as a securities broker with the Chilean Superintendency of Securities and Insurance, the regulator of Chilean open stock corporations, and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores de Bolsa S.A. has provided stock brokerage services, fixed income investments and foreign exchange products to individuals and businesses through our branch network. During the year ended December 31, 2008, Banchile Corredores de Bolsa S.A. had an aggregate trading volume on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange of approximately Ch\$6,175,895 million. As of December 31, 2008, Banchile Corredores de Bolsa S.A. had equity of Ch\$65,705 million and, for the year ended December 31, 2008, net income of Ch\$10,016 million, which represented 3.7% of our consolidated net income for such period.

In addition, Citibank Agencia de Valores S.A., prior to its merger with and into Banchile Corredores de Bolsa S.A. referred to below, provided financial services as a securities broker, such as mutual funds management services. Citibank Agencia de Valores S.A. became a subsidiary of Banco de Chile as of January 1, 2008, as a result of the merger with Citibank Chile. As of December 31, 2008, Citibank Agencia de Valores S.A. had equity of Ch\$6,746 million and, for the year ended December 31, 2008, a net loss of Ch\$144 million. Effective January 1, 2009, Citibank Agencia de Valores S.A. merged with and into Banchile Corredores de Bolsa S.A.

*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, 2008, according to data prepared by the Chilean Superintendency of Securities and Insurance, Banchile Administradora General de Fondos S.A. was the largest mutual fund manager in Chile, managing

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approximately 24.0% of all Chilean mutual funds assets. As of December 31, 2008, Banchile Administradora General de Fondos S.A. operated 73 mutual funds and managed Ch\$3,005,266 million in net assets on behalf of 250,930 corporate and individual participants. Banchile Administradora General de Fondos S.A. also operates four investment funds, Chile Small Cap, Banchile Inmobiliario I, II and III, and manages Ch\$75,269 million in net assets on behalf of 938 participants.

During 2008, Banco de Chile acquired Legg Mason Chile, which channeled the business of Citibank Chile. Subsequently, during the same period, Legg Mason Chile merged with Banchile Administradora General de Fondos S.A.

The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos S.A. as of December 31, 2008:

Name of Fund	Type of Fund	Net Asset Value
		As of December 31, 2008 (in millions of Ch\$)
Utilidades	Fixed income (short/medium term)	74,334
Liquidez 2000	Fixed income (short term)	534,889
Deposito XXI	Fixed income (medium/long term)	160,621
Corporativo	Fixed income (short term)	354,301
Estrategico	Fixed income (medium/long term)	281,893
Corporate Dollar	Fixed income (short term)	315,793
Horizonte	Fixed income (medium/long term)	39,355
Patrimonial	Fixed income (short term)	124,623
Performance	Fixed income (short/medium term)	20,360
Banchile Acciones	Equity	48,130
Ahorro	Fixed income (medium/long term)	20,816
Alianza	Debt/Equity (medium/long term)	17,045
Disponible	Fixed income (short term)	66,060
Crecimiento	Fixed income (short/medium term)	62,644
Inversion	Debt/Equity	19,865
Inversion 10	Debt/Equity	678
Inversion 20	Debt/Equity	2,038
Operacional	Fixed income (short/medium term)	11,539
Capitalisa Accionario	Equity	4,366
Renta Futura	Fixed income (short/medium term)	25,058
Euro Money Market Fund	Fixed income (short term)	23,059
Emerging Fund	Debt/Equity	24,808
Latin America Fund	Debt/Equity	67,046
Cobertura	Fixed income (medium/long term)	1,609
Dolar Fund	Fixed income (medium/long term)	2,469
U.S. Fund	Debt/Equity	2,457
Global	Debt/Equity	403
Asia Fund	Debt/Equity	5,946
Europe Fund	Debt/Equity	2,925
International Bond	Fixed income (medium/long term)	484
Medical & Health-Care Fund	Debt/Equity	209
Inversion Dollar 30	Debt/Equity	1,421
Emerging Dollar	Debt/Equity	21,187
Global Dollar	Debt/Equity	716
U.S. Dollar Fund	Debt/Equity	524
Gestion Activa A	Debt/Equity	7,041
Gestion Activa Acciones	Debt/Equity	2,442
Gestion Activa B	Debt/Equity	2,466
Gestion Activa C	Debt/Equity	3,427
Gestion Activa D	Debt/Equity	1,043
Gestion Activa E	Debt/Equity	5,296

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Bambu Garantizado	Fixed income (medium/long term)	21,137
Brics Garantizado	Fixed income (medium/long term)	12,104
Inversionista Calificado	Equity	13,271
Fronteras del Este	Fixed income (medium/long term)	4,086
Marfil Garantizado	Fixed income (medium/long term)	11,749
Verde Amarelo Garantizado	Fixed income (medium/long term)	62,528
Consumo Estable	Debt/Equity	222
Energía y Materiales	Debt/Equity	1,042
Financiero	Debt/Equity	229

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Gigantes Garantizado	Fixed income (medium/long term)	26,547
Industria y Consumo Cíclico	Debt/Equity	671
Liquidez Full	Fixed income (short term)	226,605
Tecnología y Telecomunicaciones	Debt/Equity	191
Tigres Garantizado	Fixed income (medium/long term)	15,242
Potencias Garantizado	Fixed income (medium/long term)	29,434
Fortalezas Garantizado	Fixed income (medium/long term)	16,479
Wall Street 107 Garantizado	Fixed income (medium/long term)	10,368
Inversión China	Debt/Equity	308
Inversión Brasil	Debt/Equity	669
Balance I	Debt/Equity	2,744
Asiatico Accionario	Debt/Equity	443
Inversión Dólar	Debt/Equity	2,710
Acciones Europa	Debt/Equity	1,163
Acciones USA	Debt/Equity	398
Cash	Fixed income (short term)	79,271
Inversión M.P.	Debt/Equity	5,302
Latina Accionario	Debt/Equity	12,565
Mid Cap	Equity	4,222
Inversión L.P.	Debt/Equity	23,178
Chile Accionario	Equity	20,930
Capital Financiero	Fixed income (short term)	31,193
Depósito Flexible	Fixed income (short term)	6,879

Total Ch\$ 3,005,266

As of December 31, 2008, Banchile Administradora General de Fondos S.A. had equity of Ch\$44,763 million and, for the year ended December 31, 2008, net income of Ch\$5,758 million, which represented 2.1% 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, 2008, Banchile Factoring S.A. had net income of Ch\$925 million, with a 2.8% return on equity and an estimated 12.3% market share in Chile's factoring industry.

*Financial Advisory Services*

We provide financial advisory and other investment banking services to our customers through Banchile Asesoría Financiera S.A. The services offered by Banchile Asesoría Financiera S.A. are directed primarily to our corporate customers and include advisory services regarding mergers and acquisitions, restructuring, project finance and strategic alliances. As of December 31, 2008, Banchile Asesoría Financiera S.A. had equity of Ch\$3,869 million and, for the year ended December 31, 2008, net income of Ch\$4,744 million.

*Insurance Brokerage*

We provide insurance brokerage services to our customers through Banchile Corredores de Seguros Limitada. In 2000, we began to offer life insurance policies associated with consumer loans and non-credit related insurance to our individual clients and the general public. As of December 31, 2008, Banchile Corredores de Seguros Limitada had equity of Ch\$11,256 million and, for the year ended December 31, 2008, net income of Ch\$3,595 million. Banchile Corredores de Seguros Limitada had a 4.4% market share, measured by amount of policies (in Chilean pesos) sold by insurance brokerage companies during 2007, the latest year for which information is available for insurance brokerage companies.

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### *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, 2008, Banchile Securitizadora S.A. had equity of Ch\$407 million and, for the year ended December 31, 2008, a net loss of Ch\$42 million. Banchile Securitizadora S.A. had a 11.3% market share measured by volume of assets securitized as of December 31, 2008.

### *Credits pre-evaluation services*

Promarket S.A. provides credit pre-evaluation services to the Bank and its subsidiaries, and researches information about potential customers. As of December 31, 2008, Promarket S.A. had equity of Ch\$934 million and, for the year ended December 31, 2008, net income of Ch\$598 million.

### *Collection Services*

We provide judicial and extra-judicial loan collection services on our behalf or on behalf of third parties through Socofin S.A. As of December 31, 2008, Socofin S.A. had equity of Ch\$572 million and, for the year ended December 31, 2008, net income of Ch\$112 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, 2008, Banchile Trade Services Limited had equity of Ch\$695 million and, for the year ended December 31, 2008, net income of Ch\$113 million.

## **Distribution Channels and Electronic Banking**

Our distribution network provides integrated financial services and products to our customers through a wide range of channels. This network includes ATMs, branches, on-line banking and phone-banking devices. Our 1,584 ATMs (that form part of Redbanc's 7,056 ATM system) allow our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2008, we had a network of 371 retail branches throughout Chile. The branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, disburse cash, offer the full range of our retail banking products such as consumer loans, automobile financing, credit cards, mortgage loans and checking accounts and provide information to current and potential customers.

We offer electronic banking services to our customers 24 hours a day through our internet website, [www.bancochile.cl](http://www.bancochile.cl), which has homepages that are segmented by market. Our individual homepage offers a broad range of services, including the payment of bills, electronic fund transfers, stop payment and non-charge orders, as well as a wide variety of account inquiries. Our corporate homepage offers services including our office banking service, *Banconexion Web*, which enables our corporate customers to perform all of their banking transactions from their offices. Both homepages offer our customers the sale of third-party products with exclusive benefits. We also have a homepage designed for our investor customers, through which they can perform transactions such as stock trading, time deposit taking and opening savings accounts. Our foreign trade customers can rely on our international business homepage, which enables them to inquire about the status of their foreign trade transactions and perform transactions such as opening letters of credit, recording import collection and hedging on instructions and letters of credit. In 2008, approximately 409,631 individual and corporate customers performed close to 16.6 million transactions monthly on our website, of which approximately 3.4 million were monetary transactions.

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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 605,703 calls per month, has enabled us to develop customer loyalty campaigns, sell financial services and products, answer specialized inquiries about our remote services and receive and resolve complaints by customers and non-customers.

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

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

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

Although the Transantiago Plan has been beset with problems regarding its design, implementation and financing, certain transport agreements executed in March 2008 by and among the Secretary of Transportation and Telecommunications, the AFT and Toll Roads Companies sought to improve the Transantiago Plan. The Transantiago Plan is facing operational deficits that may be funded by means of permanent fiscal subsidies.

In 2007, as shareholders of AFT, we made extraordinary contributions for a total amount of U.S.\$4,114,000 with the purpose of financing AFT's expenses, which were capitalized as of December 31, 2007. Between January and April 2008, we made additional funds available to AFT in the amount of U.S.\$358,000, to pay expenses arising from the Transantiago Plan. We have made no additional funds available after April 2008. AFT believes that it may continue to finance its operational expenses with revenue generated in the ordinary course of its business. However, if we had to incur additional payments, we do not expect that any such payments will materially affect our business.

### **Competition**

#### ***Overview***

The Chilean market for banking and other financial services is highly competitive, and we face significant competition in each of our principal segments of operation. The Chilean financial services market consists of a number of distinct sectors. The most important sector, commercial banking, includes 23 privately owned banks and one public sector bank, Banco del Estado. As of December 31, 2008, three banks together accounted for 53.5% of all outstanding loans by Chilean financial institutions, net of interbank loans: Banco Santander-Chile (20.8%), our bank (19.4%) and Banco de Credito e Inversiones (13.3%).

As a commercial bank offering a range of services to all types of businesses and individual customers, we face a variety of competitors, ranging from other large, privately owned commercial banks to more specialized entities like niche banks. We consider the principal commercial banks in Chile to be our primary competitors, namely, Banco Santander-Chile, Banco de Credito e Inversiones, Banco Bilbao Vizcaya Argentaria Chile, or BBVA, and Corpbanca. Nevertheless, we face competition to a lesser extent from Banco del Estado, which has a larger distribution network and larger customer base than we do. Banco del Estado,

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which operates under the same regulatory regime as Chilean private sector banks, was the fourth largest bank in Chile as of December 31, 2008, with outstanding loans, net of interbank loans, of Ch\$9,322,591 million, representing a 13.3% market share, according to data published by the Chilean Superintendency of Banks.

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

In the retail market, we compete with other private sector Chilean banks, as well with Banco del Estado. Among private banks, we consider our strongest competitors in this market to be Banco Santander-Chile, Banco de Credito e Inversiones and BBVA, as each of these banks has developed business strategies that focus on both middle market companies and lower-middle to middle income brackets of the Chilean population. In addition, with respect to high-income individuals, as of December 2008, we considered our strongest competitors in this market to be Banco Santander-Chile and Banco Itaú Chile.

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

We expect the trend of increased competition and consolidation to continue, particularly in connection with the formation of new large financial groups and the creation of new niche banks. In this regard, in mid-1996, Banco Santander of Spain took control of Banco Osorno and merged it into its Chilean operations, changing its name to Banco Santander-Chile. In addition, Banco O Higgins and Banco de Santiago merged in January 1997, forming Banco Santiago. In 1999, Banco Santander of Spain took control of Banco Santiago. In August 2002, Banco Santiago and Banco Santander Chile, then the second and fourth largest banks in Chile, respectively, merged and became Chile's largest bank. In 2003, Banco del Desarrollo merged with Banco Sudameris, and in 2004, Dresdner Banque Nationale de Paris merged with Banco Security. In 2005, Banco de Credito e Inversiones merged with Banco Conosur. In 2007, Banco Itaú acquired Bank Boston unit in Chile, while Rabobank acquired HNS Bank. In addition, Scotiabank acquired Banco del Desarrollo. In the first quarter of 2008, we merged with Citibank Chile. In 2008, the Chilean Superintendency of Banks authorized the opening of a branch of the Norwegian bank DnB NOR and the acquisition of ABN Amro Bank by The Royal Bank of Scotland.

Although we believe that we are currently large enough to compete effectively in our target markets, any further consolidation in the Chilean financial services industry may adversely affect our competitive position.

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

Non-bank competition from large department stores has become increasingly significant in the consumer-lending sector. Indeed, three new consumer-oriented banks, affiliated with Chile's largest department stores, have been established during recent years. Although these banks had a market share of 1.5% as of December 31, 2008, according to the Chilean Superintendency of Banks, the opening of these banks is likely to make consumer banking more competitive.

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The following table provides certain statistical information on the Chilean financial system as of December 31, 2008:

	As of December 31, 2008							
	Assets		Loans <sup>(1)</sup>		Deposits		Equity <sup>(2)</sup>	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
	(in millions of constant Ch\$ as of December 31, 2008, except percentages)							
Private banks	Ch\$ 87,717,192	85.1%	Ch\$ 60,928,548	86.7%	Ch\$ 51,578,027	84.4%	Ch\$ 6,820,696	90.7%
Banco del Estado	15,384,129	14.9	9,322,591	13.3	9,526,365	15.6	695,307	9.3
<b>Total banking system</b>	<b>Ch\$ 103,101,321</b>	<b>100.0%</b>	<b>Ch\$ 70,251,139</b>	<b>100.0%</b>	<b>Ch\$ 61,104,392</b>	<b>100.0%</b>	<b>Ch\$ 7,516,003</b>	<b>100.0%</b>

Source: Chilean Superintendency of Banks

(1) Net of interbank loans.

(2) 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 such of our principal private sector competitors, as of the dates indicated:

	Bank Loans <sup>(1)</sup>				
	As of December 31, 2008				
	2004	2005	2006	2007	2008
Banco Santander-Chile	22.5%	22.3%	22.0%	20.9%	20.8%
Banco de Chile <sup>(2)</sup>	18.2	18.3	18.2	18.4	19.4
Citibank Chile	2.2	1.9	1.8	1.7	
Banco de Credito e Inversiones	12.6	13.0	13.1	13.0	13.3
BBVA Bilbao Vizcaya	7.7	8.0	8.1	8.3	7.5
Banco Corpbanca	6.4	6.3	6.2	6.7	7.0
<b>Total market share</b>	<b>69.6%</b>	<b>69.8%</b>	<b>69.4%</b>	<b>69.0%</b>	<b>68.0%</b>

Source: Chilean Superintendency of Banks

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

(2) Banco de Chile merged with Citibank Chile in 2008.



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*Credit Quality*

As of December 31, 2008, according to information published by the Chilean Superintendency of Banks, we had a ratio of allowances to total loans of 1.66%. This ratio was below the 1.79% posted by all banks in Chile as a whole. The following graph illustrates the five-year history of our allowances to total loan portfolio ratio as compared to the Chilean financial system's ratio as of December 31 for each of the years indicated. Since 2008, the Chilean Superintendency of Banks has published financial statement information on a consolidated basis.

Source: Chilean Superintendency of Banks

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

	Allowances to Total Loans As of December 31,				
	2004	2005	2006	2007	2008 <sup>(1)</sup>
Banco de Chile <sup>(1)</sup>	2.24%	1.73%	1.50%	1.37%	1.66%
Citibank Chile	2.71	2.13	1.55	1.96	
Banco de Credito e Inversiones	1.88	1.52	1.23	1.28	1.41
BBVA Bilbao Vizcaya	2.06	1.36	1.14	1.00	1.18
Banco Santander Chile	2.04	1.49	1.50	1.73	1.95
Banco Corpbanca	1.72	1.57	1.40	1.28	1.46
Financial system	2.03%	1.64%	1.50%	1.59%	1.79%

Source: Chilean Superintendency of Banks

(1) Banco de Chile merged with Citibank Chile in 2008.

As of December 31, 2008, according to information published by the Chilean Superintendency of Banks, we had a ratio of past due loans to total loans of 0.60%. The following table sets forth the ratio of past due loans to total loans for the four largest private sector banks as of December 31 in each of the last five years on a consolidated basis:

	Past Due Loans to Total Loans As of December 31,				
	2004	2005	2006	2007	2008 <sup>(1)</sup>
BBVA Bilbao Vizcaya	1.65%	1.14%	0.93%	0.91%	1.00%
Banco Santander Chile	1.54	1.07	0.80	0.87	1.10
Banco de Credito e Inversiones	0.92	0.72	0.79	0.66	0.80
Banco de Chile <sup>(1)</sup>	1.23	0.87	0.64	0.52	0.60
Citibank Chile	1.07	0.57	0.28	0.25	
Banco Corpbanca	0.81%	0.89%	0.58%	0.54%	0.78%

Source: Chilean Superintendency of Banks

(1) Banco de Chile merged with Citibank Chile in 2008.

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

We had deposits of Ch\$11,482,449 million as of December 31, 2008 on a consolidated basis. In consolidated terms, our 18.8% of the market share for deposits, including borrowings from domestic financial institutions, placed us in second place among private sector banks. The following table sets forth the market shares in terms of deposits for the private sector banks with the largest market share as of December 31 in each of the last five years on a consolidated basis:

	<b>Deposits</b>				
	<b>As of December 31,</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Banco de Chile <sup>(1)</sup>	16.6%	16.4%	17.8%	17.0%	18.8%
Citibank Chile	2.4	2.0	1.8	2.0	
Banco Santander Chile	19.3	20.5	20.9	20.2	20.8
Banco de Credito e Inversiones	11.1	11.8	12.3	12.3	13.2
BBVA Bilbao Vizcaya	9.1	8.6	8.9	8.9	7.4
Banco Corpbanca	6.9	5.9	5.1	6.2	6.1
<b>Total market share</b>	<b>65.4%</b>	<b>65.2%</b>	<b>66.8%</b>	<b>66.6%</b>	<b>66.3%</b>

Source: Chilean Superintendency of Banks

(1) Banco de Chile merged with Citibank Chile in 2008.

**Equity**

With Ch\$1,216,008 million in equity (not including net income, minority interest and provision for minimum dividends), according to information published by the Chilean Superintendency of Banks, as of December 31, 2008, we were the second largest private sector commercial bank in Chile in terms of equity.

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

	<b>Equity</b>				
	<b>As of December 31,</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>(in millions of constant Ch\$ as of December 31, 2008)</b>				
Banco Santander Chile	Ch\$ 1,031,203	Ch\$ 1,006,335	Ch\$ 1,122,916	Ch\$ 1,229,911	Ch\$ 1,348,342
Banco de Chile <sup>(1)</sup>	646,118	710,287	748,078	881,115	1,216,008
Citibank Chile	286,693	296,642	331,184	326,137	
Banco de Credito e Inversiones	417,441	472,252	546,912	619,160	684,007
Banco Corpbanca	403,128	424,097	461,150	472,218	455,152
BBVA Bilbao Vizcaya	Ch\$ 312,292	Ch\$ 309,624	Ch\$ 312,279	Ch\$ 364,720	Ch\$ 420,914

Source: Chilean Superintendency of Banks

- (1) Banco de Chile merged with Citibank Chile in 2008.

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

Our return on average equity, including net income for the year, was 20.1% for the year ended December 31, 2008, according to information published by the Chilean Superintendency of Banks. The following table sets forth our return on average equity and the returns of our principal competitors and the Chilean financial system, in each case as of December 31 in each of the last five years:

	<b>Return on Average Equity Year Ended December 31,</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Banco de Chile <sup>(1)</sup>	23.6%	26.7%	25.0%	27.4%	20.1%
Banco Santander-Chile	20.4	23.7	25.2	23.9	22.0
Banco de Credito e Inversiones	22.8	23.4	22.6	21.8	20.3
Banco Corpbanca	14.6	13.8	9.5	11.6	11.9
BBVA Bilbao Vizcaya	5.3	10.7	10.0	9.8	10.4
Citibank Chile	4.2	6.8	10.7	6.7	
Financial system average	15.3%	16.4%	16.8%	16.5%	13.6%

Source: Chilean Superintendency of Banks

(1) Banco de Chile merged with Citibank Chile in 2008.

**Efficiency**

For the year ended December 31, 2008, our efficiency ratio (operating expenses as a percentage of our operating revenues) was 52.3% on a consolidated basis.<sup>(1)</sup>

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

	<b>Efficiency Ratio<sup>(1)</sup> As of December 31,</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
BBVA Bilbao Vizcaya	63.6%	65.0%	62.5%	59.1%	54.5%
Banco de Credito e Inversiones	53.0	51.8	52.8	49.7	50.6
Banco de Chile <sup>(2)</sup>	51.4	53.6	53.8	48.5	52.3
Citibank Chile	81.3	77.5	68.1	63.4	
Banco Santander-Chile	44.0	41.5	39.0	36.5	38.0
Banco Corpbanca	39.2%	40.0%	48.8%	41.8%	43.6%

Source: Chilean Superintendency of Banks

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

- (2) Banco de Chile merged with Citibank Chile in 2008.

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**REGULATION AND SUPERVISION**

**General**

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

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

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

**The Central Bank**

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

The legal purpose of the Central Bank is to maintain the stability of the Chilean peso and the orderly functioning of Chile's internal and external payment systems. 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 bank deposit-taking activities.

**The Chilean Superintendency of Banks**

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

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

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

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

the merger of two or more banks;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Deposit Insurance**

According to the Chilean General Banking Law, local or foreign currency denominated deposits at banks or financial companies are insured as described below.

The Chilean Government guarantees up to 100% of the principal amount of the following deposits held by individuals:

Deposits in current accounts;

Deposits in savings accounts;

Other demand deposits; and

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Deposits in savings accounts with unlimited withdrawals.

In addition, the Chilean Government guarantees up to 90.0% of the principal amount of time deposits held by individuals in the Chilean banking system. This guarantee covers obligations with a maximum value of UF108 per person (Ch\$2,316,877.6 or U.S.\$3,682.79 as of December 31, 2008).

### **Reserve Requirements**

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

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

deposits in checking accounts;

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

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

other deposits unconditionally payable immediately.

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

### **Minimum Capital**

Under the Chilean General Banking Law, a bank must have a minimum paid-in capital and reserves of UF800,000 (Ch\$17,162 million or U.S.\$27.3 million as of December 31, 2008). 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\$12,872 million or U.S.\$20.5 million as of December 31, 2008), the effective equity ratio requirement is reduced to 10.0%.

### **Capital Adequacy Requirements**

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

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

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

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its additional allowances for loan losses, up to 1.25% of risk-weighted assets to the extent these 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 their total assets, net of required allowances.

**Table of Contents****Market Risk Regulations**

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

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

The new rules state that the price risk of the trading book plus 10% of the risk-weighted assets may not be greater than a bank's effective equity (in this case, the effective equity is equivalent to equity plus subordinated debt and other minor adjustments). As of December 31, 2008, the price risk of our trading book totaled Ch\$46,696 million.

The following table shows our regulatory risk availability, computed as the difference between the total risk (10% of the risk-weighted assets plus the trading book risk) and our effective equity, as of December 31, 2008:

	<b>As of December 31, 2008</b> <b>(in millions of constant Ch\$)</b>
(a) 10% risk-weighted assets	1,515,396
(b) Trading price risk	46,696
(c = a + b) Total risk	1,562,092
(d) Effective Equity	1,774,448
(e = d - c) Risk Availability	212,356

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

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

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

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

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

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

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

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

## **Lending Limits**

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

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

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

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

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

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

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

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

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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.

**Classification of Banks**

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

***Solvency and Management***

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

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

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

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

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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 that have been approved by our board of directors. This evaluation is conducted in order to determine the necessary allowances to cover loan losses adequately. Each bank is required to calculate and maintain, on a monthly basis, the following types of allowances:

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

allowances determined by group analysis models; and

additional allowances for the loan portfolio.

Each year, a bank's board of directors must examine the sufficiency of its level of allowances and provide an opinion stating whether the allowances are sufficient to cover all potential loan losses. The board must also obtain a report from the external auditors regarding 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 additional provisions up to an amount equal to 1.25% of the risk-weighted assets must be accounted for as effective equity in accordance with the Chilean Superintendency of Banks' guidelines.

The Chilean Superintendency of Banks amended its guidelines effective as of January 1, 2004. Pursuant to the amended guidelines, 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. Although the Chilean Superintendency of Banks has established these guidelines, banks are given some latitude in devising more stringent classification systems within such guidelines. Prior to January 1, 2004, banks classified their loan portfolios and determined allowances for loan losses using different guidelines.

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

consumer loans: comprised of all loans granted to individuals to be used for purchasing goods or services. This category include different types of loans (either installments or revolving), as well as balances from using credit cards or making overdrafts on current accounts belonging to individuals. Consumer loans also include consumer lease transactions and other accounts receivable;

mortgage loans: this category includes mortgage loans granted to individuals to acquire, expand, repair or build a home, issued as mortgage bonds, endorsable mortgage loans or other methods. It also includes supplementary loans for the same purposes and bridge loans granted during the period before the mortgage loan has been settled. This subcategory also includes residential real estate lease transactions and other accounts receivable; and

commercial loans: this category includes loans other than those described in the bullets above.

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

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

An individual analysis of the borrower is necessary if the borrower is a large or complex business, or one to which the bank has no previous exposure. Models based on the individual analysis of borrowers require that the bank assign a risk category level to each borrower and its

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respective loans. In making such a determination, a bank must consider the following risk factors with respect to the borrower: (i) its industry or sector; (ii) its owners or managers; (iii) its financial situation; (iv) its payment capacity; and (v) its payment behavior.

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

**Borrowers with Normal Risk**

Categories A1, A2 and A3:

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

Category B:

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

**Borrowers with Above Normal Risk**

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

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

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

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

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

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

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

(2) Allowance percentages are supported by statistical probabilities.

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

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

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

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

**Additional Allowances**

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

**Obligations Denominated in Foreign Currencies**

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

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

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

**Capital Markets**

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

**Table of Contents****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 Chilean Superintendency of Banks must also revoke the bank's authorization if the reorganization plan of the bank has been rejected twice. The resolution by the Chilean Superintendency of Banks must state the reason for ordering the liquidation and must name a liquidator, unless the Superintendent of Banks assumes this responsibility. When a liquidation is declared, all checking accounts, other demand deposits received in the ordinary course of business, other deposits unconditionally payable immediately or that have a maturity of no more than 30 days, and any other deposits and receipts payable within 10 days of its maturity date, are required to be paid by using the bank's existing funds, its deposits with the Central Bank, or its investments in instruments that represent its reserves. If these funds are insufficient to pay these obligations, the liquidator may seize the bank's remaining assets, as needed. If necessary, and in specified circumstances, the Central Bank will lend the bank the funds necessary to pay these obligations. Any such loans are preferential to any claims of other creditors of the liquidated bank.

**Investments in Foreign Securities**

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

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

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

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

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

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

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

**Convergence to IFRS**

The Chilean Superintendency of Banks through Circular No. 3.410, dated November 9, 2007, subsequently complemented by Circular No. 3.443, dated August 21, 2008, introduced the new Compendium of Accounting Standards applicable as of January 1, 2009, as a result of the convergence project to International Financial Reporting Standards (IFRS). Since January 1, 2008, Chilean banks have begun to use the new Compendium of Accounting Standards in the preparation of their financial statements in accordance with the guidance provided by the Chilean Superintendency of Banks. The new Compendium of Accounting Standards differs in certain aspects from IFRS, such as the fact that banks (i) must provide for credit risk based on requirements such as expected losses on loan commitments (i.e., off-balance contingent risk such as authorized credit limits or letters of credit not yet negotiated) and (ii) are not allowed to designate assets or liabilities at fair value.

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The retroactive accumulated impact of the accounting changes at December 31, 2008 were directly recognized in equity by an increase equivalent to Ch\$23.131 million at January 1, 2009.

The summary of the main accounting criteria changes that have been applied since January 1, 2009, include the following:

### **Price-level restatement**

Until December 31, 2008, non-monetary assets, liabilities and equity accounts were restated according to the changes in the Consumer Price Index (CPI).

As of January 1, 2009, price-level restatement criteria was eliminated, considering Chile has a non- hyperinflationary economy as per the terms of the International Standard of Accountancy No. 29 (NIC 29).

### **Staff severance indemnities:**

This liability is recorded at its present value, according with Technical Bulletin No. 8 of the Chilean Association of Accountants. As of January 1, 2009, the liabilities of this benefit plan are valued according to projected unit of credit method, including as variables: staff rotation rate, the salary growth expected and the probability of use of this benefit, discounted to the current rate for long term operations in accordance with the International Standard of Accountancy No. 19 (NIC 19) Benefits to Employees.

### **Fixed assets:**

Until December 31, 2008, fixed assets were stated at acquisition cost net of accumulated depreciation restated by price-level restatement. As of January 1, 2009, the fixed assets value corresponds to historical cost or value of last appraisal required by the local regulator, with the price-level restatement applied until December 31, 2007. In the case of certain real estate items, according to the Compendium of Accounting Standards, the Bank chose to apply the reasonable value of these assets based on independent appraisals.

### **Impaired Portfolio:**

The Impaired Portfolio concept was incorporated as of January 1, 2009. Impaired Portfolio corresponds to those customers where there is evidence that they will fail with any of their obligations in the payment conditions that were previously agreed.

In this context, the bank must incorporate these loans to impaired portfolio category and maintain them in that portfolio until a normalization payment s conduct is observed.

### **Interest revenue:**

(i) Until December 31, 2008, the loans and accounts receivable to customers were presented with their interests and accruals, according to the agreed rate. Loan origination costs were capitalized and amortized over the average life of the loan portfolio. As of January 1, 2009, loans and interest revenue are recorded using the effective interest rate method.

(ii) Suspension of recognition of revenue on an accrual basis

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Until December 31, 2008, interest revenue recognition factored in the suspension of accrual according to the following criteria:

From the date a loan, portion of the loan or installment is unpaid and 90 days overdue, while no payments or renegotiations apply on the delinquent amounts

Accrual suspended for loans classified in categories D1 and D2, from the classification date and so long as these loans are not reclassified in a risk category lower than C4.

For loans that were classified in category C4 during one year, the accrual is suspended one year after the credit was classified in this category (C4).

Starting on January 1, 2009, a portion of the loan portfolio classified as impaired portfolio (customers classified in the D1, D2, C3 and C4 credit risk categories) suspends the accrual of interest as described below:

<b>Suspension Criteria</b>	<b>Suspension applies:</b>
Individual Credit Evaluation (by debtor):	Immediately when the client is classified in these categories.
Loans classified in categories D1 and D2	
Individual Credit Evaluation (by debtor):	After three months in these categories
Loans classified in category C3 and C4	
Group Credit Evaluation (by group of debtors):	When the loan completes six months of
Loans with guaranties less than 80% of the outstanding	delinquency.

**Charge-off loans:**

Until December 31, 2008, the time requested by the Chilean Superintendency of Banks for recording charge-offs from loans was considered from its entrance to its past due portfolio. The past due portfolio is comprised of loans and loan installments whose principal or interest payments are 90 days or more past due.

As of January 1, 2009, charge-off loans apply on the current and past due installments, i.e., the charge-off should be recorded when the period of an unpaid installment or part of a credit completes the term indicated in the table below:

<b>Types of Loan</b>	<b>Term</b>
Consumer loans with or without collateral	6 months
Other operations without collateral	24 months
Commercial loans with collateral	36 months
Residential real estate mortgage loans	48 months
Consumer leasing	6 months
Other non real estate leasing operations	12 months
Real estate leasing (commercial or residential)	36 months

**Rewrite of charged-off transactions**

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Until December 31, 2008, at the moment of a renegotiation of a credit transaction previously written off, the accounting criteria applied treated it as loan recovery for the total amount renegotiated.

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Under the new rule, any renewal or renegotiation of charge off credits is not considered recovery and only effective payments received from customers must be treated as loan recoveries.

Consequently, a previous credit write-off can only be recorded as an asset if the client maintains regular payments for at least six consecutive months.

### **Deferred taxes:**

The effect of deferred taxes arising out of the temporary differences originating in the adjustment made due to the application of the new accounting criteria established by the Chilean Superintendency of Banks, were recognized in January 1, 2009.

The summary of retroactive impact on the financial statement due to these new accounting criteria, applicable as of December 31, 2008, is shown under Note 35 to the Consolidated Financial Statements.

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

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

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

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

### **Procedures for the Management of Information of Interest to the Market**

In order to ensure compliance with the provisions of the Chilean Securities Market Law and regulations, issued by the Chilean Superintendency of Securities and Insurance and the Chilean Superintendency of Banks, the Board of Directors of Banco de Chile approved, on October 24, 2008, the Manual for the Management of Information of Interest to the Market (the Manual).

The Manual's main objective is to provide timely disclosure of Banco de Chile's policies and internal regulations in connection with the disclosure of information to the public and the systems that have been implemented at the Bank.

In addition, these policies and internal regulations establish codes of conduct that Banco de Chile's employees and other persons with access to certain information must comply with in order to protect information related to the Bank.

The Manual is available to the general public on Banco de Chile's web page at [www.bancochile.cl](http://www.bancochile.cl).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**ORGANIZATIONAL STRUCTURE**

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

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

**PROPERTY, PLANTS AND EQUIPMENT**

We are domiciled in Chile and own the building located at Ahumada 251, Santiago, Chile that is approximately 76,500 square meters and serves as the headquarters for the Bank and its subsidiaries. In addition, we own an approximately 15,000 square meter building located at Huerfanos 740, Santiago, Chile where the remainder of our executive offices are located. As of, December 31, 2008, we owned the properties on which 165 of our full-service branches and other points of sale are located (approximately 110,000 square meters of office space). As of December 31, 2008, we had leased office space for our remaining 263 full-service branches and other points of sale, as well as for our representative offices. We also own properties throughout Chile for back office and administrative operations, as well as for storage of documents and other purposes. We believe that our facilities are adequate for our present needs and suitable for their intended purposes.

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

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**SELECTED STATISTICAL INFORMATION**

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

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

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

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

Where:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

overseas banks earn interest on certain accounts in certain countries.

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

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

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The following tables show, by currency of denomination, average balances and, where applicable, interest amounts, nominal and real rates for our assets and liabilities for the years ended December 31, 2006, 2007 and 2008:

	2006		Year Ended December 31, 2007				2008											
	Average balance	Interest earned <sup>(1)</sup>	Average nominal rate	Average real rate	Average balance	Interest earned <sup>(1)</sup>	Average nominal rate	Average real rate	Average balance	Interest earned <sup>(1)</sup>	Average nominal rate	Average real rate						
(in millions of constant Ch\$ as of December 31, 2008, except percentages)																		
<b>Assets</b>																		
<b>Interest-bearing assets</b>																		
<b>Financial instruments</b>																		
	Ch\$	254,822	Ch\$	583	0.23%	(2.28%)	Ch\$	295,948	Ch\$	1,170	0.40%	(6.89%)	Ch\$	422,079	Ch\$	415	0.10%	(6.91%)
Foreign currency		726,595		6,843	0.94	2.28		515,138		8,570	1.66	(12.52)		381,112		2,997	0.79	18.92
Local		981,417		7,426	0.76	1.10		811,086		9,740	1.20	(10.46)		803,191		3,412	0.42	5.35
<b>Financial instruments</b>																		
		710,284		39,269	5.53	2.88		905,763		50,999	5.63	(2.03)		867,210		62,371	7.19	(0.31)
Foreign currency		179,795		10,750	5.98	3.32		216,936		20,689	9.54	1.59		322,485		36,753	11.40	3.60
Local		572,303		25,068	4.38	5.76		444,819		16,666	3.75	(10.73)		203,955		5,301	2.60	21.00
Local		1,462,382		75,087	5.13	4.07		1,567,518		88,354	5.64	(4.00)		1,393,650		104,425	7.49	3.72
<b>Financial instruments</b>																		
		42,005		3,552	8.46	5.74		96,019		8,670	9.03	1.12		141,955		15,343	10.81	3.05
Foreign currency																		
Local		42,005		3,552	8.46	5.74		96,019		8,670	9.03	1.12		141,955		15,343	10.81	3.05
<b>Commercial</b>																		
		2,166,742		175,100	8.08	5.37		2,594,798		211,466	8.15	0.31		3,590,168		331,502	9.23	1.58
Foreign currency		3,286,110		231,010	7.03	4.35		3,388,834		400,698	11.82	3.71		3,569,057		486,244	13.62	5.67
Local		968,043		55,847	5.77	7.17		1,137,472		66,004	5.80	(8.96)		1,662,260		79,709	4.80	23.65
Local		6,420,895		461,957	7.19	5.12		7,121,104		678,168	9.52	0.45		8,821,485		897,455	10.17	7.39
<b>Consumer</b>																		
		1,184,899		225,020	18.99	16.01		1,325,815		245,424	18.51	9.92		1,794,184		376,279	20.97	12.50
		30,456		5,982	19.64	16.64		30,455		4,278	14.05	5.78		34,449		5,337	15.49	7.40

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Foreign Currency												
1	1,215,355	231,002	19.01	16.03	1,356,270	249,702	18.41	9.82	1,828,633	381,616	20.87	12.40
Net Investment Income												
	1,680,655	124,723	7.42	4.73	1,958,547	235,605	12.03	3.90	2,156,801	300,347	13.93	5.95
Foreign Currency												
1	1,680,655	124,723	7.42	4.73	1,958,547	235,605	12.03	3.90	2,156,801	300,347	13.93	5.95
Purchase Payment												
	51,055	2,538	4.97	2.34	33,354	1,892	5.67	(1.99)	72,007	4,639	6.44	(1.01)
Foreign Currency												
	1,027	11	1.07	2.41	7,541	481	6.38	(8.46)	2,668	27	1.01	19.19
1	52,082	2,549	4.89	2.34	40,895	2,373	5.80	(3.18)	74,675	4,666	6.25	(0.25)
Net Interest Income												
	4,409,807	446,062	10.12	7.36	5,251,697	519,621	9.89	1.92	6,887,603	790,549	11.48	3.67
	5,177,016	372,465	7.19	4.51	5,594,772	661,270	11.82	3.71	6,082,792	828,681	13.62	5.67
Foreign Currency												
	2,267,968	87,769	3.87	5.25	2,104,970	91,721	4.36	(10.20)	2,249,995	88,034	3.91	22.61
1	Ch\$ 11,854,791	Ch\$ 906,296	7.64%	5.71%	Ch\$ 12,951,439	Ch\$ 1,272,612	9.83%	0.72%	Ch\$ 15,220,390	Ch\$ 1,707,264	11.22%	7.27%

(1) Interest earned includes interest accrued on trading securities.

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	Year Ended December 31,											
	2006			2007						2008		
	Average balance	Interest earned <sup>(1)</sup>	Average nominal rate	Average real rate	Average balance	Interest earned <sup>(1)</sup>	Average nominal rate	Average real rate	Average balance	Interest earned <sup>(1)</sup>	Average nominal rate	Average real rate
	(in millions of constant Ch\$ as of December 31, 2008, except percentages)											
<b>Assets</b>												
<b>Non interest earning assets</b>												
<b>Transaction in the course of collection</b>												
Ch\$	Ch\$	230,054			Ch\$	218,229			Ch\$	233,298		
UF												
Foreign currency		135,080				146,672				223,668		
Total		365,134				364,901				456,966		
<b>Allowances for loan losses</b>												
Ch\$		(139,523)				(141,388)				(182,539)		
UF												
Foreign currency		(232)				(223)						
Total		(139,755)				(141,611)				(182,539)		
<b>Derivatives</b>												
Ch\$		19,470				51,222				698,945		
UF										4		
Foreign currency		134,327				12,138				62,310		
Total		153,797				63,360				761,259		
<b>Investment in other companies</b>												
Ch\$		130,083				151,611				180,479		
UF												
Foreign currency		2				2				2		
Total		130,085				151,613				180,481		
<b>Intangible assets</b>												
Ch\$		18,174				24,631				31,709		
UF												
Foreign currency												
Total		18,174				24,631				31,709		
<b>Fixed assets</b>												
Ch\$		169,485				169,894				199,239		

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<b>UF</b>							
Foreign currency	2,690		1,375				
<b>Total</b>	<b>172,175</b>		<b>171,269</b>		<b>199,239</b>		
<b>Current tax assets</b>							
Ch\$	3,598		4,877		11,000		
<b>UF</b>							
Foreign currency							
<b>Total</b>	<b>3,598</b>		<b>4,877</b>		<b>11,000</b>		
<b>Deferred tax assets</b>							
Ch\$	66,223		55,565		60,991		
<b>UF</b>							
Foreign currency							
<b>Total</b>	<b>66,223</b>		<b>55,565</b>		<b>60,991</b>		
<b>Other assets</b>							
Ch\$	197,255		158,578		143,834		
UF	75,123		2,802		9,480		
<b>Foreign currency</b>							
	16,435		12,699		54,278		
<b>Total</b>	<b>288,813</b>		<b>174,079</b>		<b>207,592</b>		
<b>Total non interest earning assets</b>							
Ch\$	694,819		693,219		1,376,956		
UF	75,123		2,802		9,484		
<b>Foreign currency</b>							
	288,302		172,663		340,258		
<b>Total</b>	<b>Ch\$ 1,058,244</b>		<b>Ch\$ 868,684</b>		<b>Ch\$ 1,726,698</b>		
<b>Total assets</b>							
Ch\$	5,104,626	446,062	5,944,916	519,621	8,264,559	790,549	
UF	5,252,139	372,465	5,597,574	661,270	6,092,276	828,681	
<b>Foreign currency</b>							
	2,556,270	87,769	2,277,633	91,721	2,590,253	88,034	
<b>Total</b>	<b>Ch\$ 12,913,035</b>	<b>Ch\$ 906,296</b>	<b>Ch\$ 13,820,123</b>	<b>Ch\$ 1,272,612</b>	<b>Ch\$ 16,947,088</b>	<b>Ch\$ 1,707,264</b>	

(1) Interest earned includes interest accrued on trading securities.

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	Year Ended December 31,											
	2006			2007						2008		
	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, 2008, except percentages)											
<b>Liabilities</b>												
<b>Interest bearing liabilities</b>												
<b>Deposits</b>												
<b>Accounts</b>												
\$	Ch\$ 3,110,522	Ch\$ 204,801	6.58%	3.91%	Ch\$ 3,537,469	Ch\$ 255,501	7.22%	(0.55%)	Ch\$ 4,101,279	Ch\$ 339,570	8.28%	0.70%
	2,066,653	53,235	2.58	0.01	2,325,128	172,556	7.42	(0.37)	2,316,179	219,726	9.49	1.82
Foreign currency	951,544	45,455	4.78	6.17	830,047	41,076	4.95	(9.69)	1,190,174	43,042	3.62	22.26
Total	6,128,719	303,491	4.95	2.95	6,692,644	469,133	7.01	(1.62)	7,607,632	602,338	7.92	4.41
<b>Repurchase agreements</b>												
\$	229,501	11,290	4.92	2.29	263,337	14,256	5.41	(2.23)	418,663	25,835	6.17	(1.26)
	265				1,048				6,492	234	3.60	(3.65)
Foreign currency	88,298	2,509	2.84	4.21	76,506	5,967	7.80	(7.24)	36,972	2,404	6.50	25.67
Total	318,064	13,799	4.34	2.82	340,891	20,223	5.93	(3.35)	462,127	28,473	6.16	0.86
<b>Borrowings from financial institutions</b>												
\$	179,321	2,668	1.49	(1.06)	166,646	893	0.54	(6.76)	198,510	4,035	2.03	(5.11)
	17,353	462	2.66	0.09	16,763	30	0.18	(7.09)	11,672	43	0.37	(6.66)
Foreign currency	700,069	8,544	1.22	2.56	744,337	8,518	1.14	(12.96)	1,214,370	240	0.02	18.02
Total	896,743	11,674	1.30	1.79	927,746	9,441	1.02	(11.74)	1,424,552	4,318	0.30	14.59
<b>Debt issued</b>												
\$	43,290	7,166	16.55	13.63	40,158	5,907	14.71	6.39	36,734	3,045	8.29	0.71
	1,332,575	87,955	6.60	3.93	1,456,331	171,093	11.75	3.64	1,578,485	216,361	13.71	5.74
Foreign currency	69,871	4,268	6.11	7.52	117,844	7,128	6.05	(8.74)	116,589	6,617	5.68	24.69
Total	1,445,736	99,389	6.87	4.39	1,614,333	184,128	11.41	2.81	1,731,808	226,023	13.05	6.91
<b>Other financial institutions</b>												
\$	27,519	254	0.92	(1.61)	24,387	23	0.09	(7.17)	29,578	400	1.35	(5.75)
	2,325	248	10.67	7.89	4,162	1,059	25.44	16.35	5,477	1,239	22.62	14.04
Foreign currency	23,602	4,706	19.94	21.53	38,841	6,456	16.62	0.35	60,147	22,313	37.10	61.77
Total	53,446	5,208	9.74	9.02	67,390	7,538	11.19	(1.38)	95,202	23,952	25.16	38.05
<b>Total interest bearing liabilities</b>												
\$	3,590,153	226,179	6.30	3.64	4,031,997	276,580	6.86	(0.89)	4,784,764	372,885	7.79	0.24

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Foreign	3,419,171	141,900	4.15	1.54	3,803,432	344,738	9.06	1.15	3,918,305	437,603	11.17	3.38
currency	1,833,384	65,482	3.57	4.94	1,807,575	69,145	3.83	(10.66)	2,618,252	74,616	2.85	21.36
Total	Ch\$ 8,842,708	Ch\$ 433,561	4.90%	3.10%	Ch\$ 9,643,004	Ch\$ 690,463	7.16%	(1.92%)	Ch\$ 11,321,321	Ch\$ 885,104	7.82%	6.21

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	Year Ended December 31,											
	2006			2007						2008		
	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, 2008, except percentages)												
<b>Liabilities</b>												
<b>Non interest bearing liabilities</b>												
<b>Current account and demand deposit</b>												
Ch\$	Ch\$ 1,876,732				Ch\$ 2,039,175				Ch\$ 2,374,997			
UF	8,722				8,619				11,416			
Foreign currency	480,916				427,571				343,620			
Total	2,366,370				2,475,365				2,730,033			
<b>Transaction in the course of payment</b>												
Ch\$	117,116				100,404				110,476			
UF												
Foreign currency	159,882				165,564				178,560			
Total	276,998				265,968				289,036			
<b>Derivatives</b>												
Ch\$	175,257				76,107				698,032			
UF	16,881								2,903			
Foreign currency	6,488				9,088				51,962			
Total	198,626				85,195				752,897			
<b>Current liabilities</b>												
Ch\$	4,054				7,537				18,198			
UF												
Foreign currency												
Total	4,054				7,537				18,198			
<b>Deferred tax liabilities</b>												
Ch\$	24,085				20,748				22,910			
UF												
Foreign currency												
Total	24,085				20,748				22,910			
<b>Provisions</b>												
Ch\$	64,763				64,508				186,292			

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UF							
Foreign currency	62		15			1,139	
Total	64,825		64,523			187,431	
<b>Other liabilities</b>							
Ch\$	97,595		150,011			152,937	
UF	11,377		12,792			13,185	
Foreign currency	17,484		11,356			24,719	
Total	126,456		174,159			190,841	
<b>Equity</b>							
Ch\$	989,004		1,065,096			1,378,920	
UF							
Foreign currency	19,909		18,528			55,501	
Total	1,008,913		1,083,624			1,434,421	
<b>Total non-interest bearing liabilities and equity</b>							
Ch\$	3,348,606		3,523,586			4,942,762	
UF	36,980		21,411			27,504	
Foreign currency	684,741		632,122			655,501	
Total	Ch\$ 4,070,327		Ch\$ 4,177,119			Ch\$ 5,625,767	
<b>Total liabilities and equity</b>							
Ch\$	6,938,759	226,179	7,555,583	276,580		9,727,526	372,885
UF	3,456,151	141,900	3,824,843	344,738		3,945,809	437,603
Foreign currency	2,518,125	65,482	2,439,697	69,145		3,273,753	74,616
Total	Ch\$ 12,913,035	Ch\$ 433,561	Ch\$ 13,820,123	Ch\$ 690,463		Ch\$ 16,947,088	Ch\$ 885,104

**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.

	2006	Year Ended December 31,		2008
		2007		
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)			
<b>Total average interest earning assets</b>				
Ch\$	Ch\$ 4,409,807	Ch\$ 5,251,697	Ch\$ 6,887,603	
UF	5,177,016	5,594,772	6,082,792	
Foreign currency	2,267,968	2,104,970	2,249,995	
Total	11,854,791	12,951,439	15,220,390	
<b>Net interest earned<sup>(1)</sup></b>				
Ch\$	219,883	243,041	417,664	
UF	230,565	316,532	391,078	
Foreign currency	22,287	22,576	13,418	
Total	Ch\$ 472,735	Ch\$ 582,149	Ch\$ 822,160	
<b>Net interest margin, nominal basis<sup>(2)</sup></b>				
Ch\$	4.99%	4.63%	6.06%	
UF	4.45	5.66	6.43	
Foreign currency	0.98	1.07	0.60	
Total	3.99%	4.49%	5.40%	

(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 2007 and 2008 and between 2006 and 2007 caused by (i) changes in the average volume of interest earning assets and interest bearing liabilities and (ii) changes in their respective nominal interest rates. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rate, average interest earning assets and average interest bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change in volume and the change in rate.

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	Increase (Decrease) from 2006 to 2007 due to changes in		Net change from 2006 to 2007	Increase (Decrease) from 2007 to 2008 due to changes in		Net change from 2007 to 2008
	Volume	Rate		Volume	Rate	
(in millions of constant Ch\$ as of December 31, 2008)						
<b>Assets</b>						
<b>Interest earning assets</b>						
<b>Cash and due from banks</b>						
Ch\$	Ch\$ 107	Ch\$ 480	Ch\$ 587	Ch\$ 363	Ch\$ (1,118)	Ch\$ (755)
UF						
Foreign currency	(2,412)	4,139	1,727	(1,841)	(3,732)	(5,573)
Total	(2,305)	4,619	2,314	(1,478)	(4,850)	(6,328)
<b>Financial investments</b>						
Ch\$	10,994	736	11,730	(2,251)	13,623	11,372
UF	2,561	7,378	9,939	11,468	4,596	16,064
Foreign currency	(5,094)	(3,308)	(8,402)	(7,259)	(4,106)	(11,365)
Total	8,461	4,806	13,267	1,958	14,113	16,071
<b>Loans in advance to banks</b>						
Ch\$	4,862	256	5,118	4,727	1,946	6,673
UF						
Foreign currency						
Total	4,862	256	5,118	4,727	1,946	6,673
<b>Commercial loans</b>						
Ch\$	34,873	1,493	36,366	89,131	30,905	120,036
UF	7,437	162,251	169,688	22,150	63,396	85,546
Foreign currency	9,830	327	10,157	26,610	(12,905)	13,705
Total	52,140	164,071	216,211	137,891	81,396	219,287
<b>Consumer loans</b>						
Ch\$	26,204	(5,800)	20,404	95,075	35,780	130,855
UF		(1,704)	(1,704)	593	466	1,059
Foreign currency						
Total	26,204	(7,504)	18,700	95,668	36,246	131,914
<b>Residential mortgage loans</b>						
Ch\$						
UF	23,316	87,566	110,882	25,319	39,423	64,742
Foreign currency						
Total	23,316	87,566	110,882	25,319	39,423	64,742
<b>Repurchase agreement</b>						
Ch\$	(968)	322	(646)	2,459	288	2,747
UF						
Foreign currency	264	206	470	(197)	(257)	(454)
Total	(704)	528	(176)	2,262	31	2,293

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**Total interest earning assets**

Ch\$	76,072	(2,513)	73,559	189,504	81,424	270,928
UF	33,314	255,491	288,805	59,530	107,881	167,411
Foreign currency	2,588	1,364	3,952	17,313	(21,000)	(3,687)
Total	Ch\$ 111,974	Ch\$ 254,342	Ch\$ 366,316	Ch\$ 266,347	Ch\$ 168,305	Ch\$ 434,652

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	Increase (Decrease) from 2006 to 2007 due to changes in		Net change from 2006 to 2007	Increase (Decrease) from 2007 to 2008 due to changes in		Net change from 2007 to 2008
	Volume	Rate		Volume	Rate	
(in millions of constant Ch\$ as of December 31, 2008)						
<b>Liabilities</b>						
<b>Interest bearing liabilities</b>						
<b>Savings accounts and time deposits</b>						
Ch\$	Ch\$ 29,708	Ch\$ 20,992	Ch\$ 50,700	Ch\$ 43,829	Ch\$ 40,240	Ch\$ 84,069
UF	7,439	111,882	119,321	(667)	47,837	47,170
Foreign currency	(5,967)	1,588	(4,379)	14,861	(12,895)	1,966
Total	31,180	134,462	165,642	58,023	75,182	133,205
<b>Repurchase agreements</b>						
Ch\$	1,764	1,202	2,966	9,359	2,220	11,579
UF					234	234
Foreign currency	(377)	3,835	3,458	(2,695)	(868)	(3,563)
Total	1,387	5,037	6,424	6,664	1,586	8,250
<b>Borrowing from financial institutions</b>						
Ch\$	(177)	(1,598)	(1,775)	201	2,941	3,142
UF	(15)	(417)	(432)	(11)	24	13
Foreign currency	523	(549)	(26)	3,311	(11,589)	(8,278)
Total	331	(2,564)	(2,233)	3,501	(8,624)	(5,123)
<b>Debt issued</b>						
Ch\$	(496)	(763)	(1,259)	(468)	(2,394)	(2,862)
UF	8,846	74,292	83,138	15,152	30,116	45,268
Foreign currency	2,902	(42)	2,860	(75)	(436)	(511)
Total	11,252	73,487	84,739	14,609	27,286	41,895
<b>Other financial obligation</b>						
Ch\$	(26)	(205)	(231)	6	371	377
UF	295	516	811	307	(127)	180
Foreign currency	2,637	(887)	1,750	4,886	10,971	15,857
Total	2,906	(576)	2,330	5,199	11,215	16,414
<b>Total interest bearing liabilities</b>						
Ch\$	30,773	19,628	50,401	52,927	43,378	96,305
UF	16,565	186,273	202,838	14,781	78,084	92,865
Foreign currency	(282)	3,945	3,663	20,288	(14,817)	5,471
Total	Ch\$ 47,056	Ch\$ 209,846	Ch\$ 256,902	Ch\$ 87,996	Ch\$ 106,645	Ch\$ 194,641

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

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

	As of December 31,			Weighted Average Nominal Rate as of December 31, 2008 %
	2006	2007	2008	
	(in millions of constant Ch\$ as of December 31, 2008,			
	except for rate data)			
<b>Instruments issued by the Chilean Government and the Central Bank of Chile</b>				
Instruments issued by the Central Bank of Chile	Ch\$ 582,601	Ch\$ 328,931	Ch\$ 224,447	4.51%
Treasury bonds or notes payable	21	298	80,046	5.04
Other government instruments	334	449	39	4.00
<b>Subtotal</b>	<b>582,956</b>	<b>329,678</b>	<b>304,532</b>	<b>4.65</b>
<b>Other instruments issued in Chile</b>				
Instruments issued by other banks	360,162	515,818	263,160	8.90
Bonds and commercial paper issued by companies	37,606	113,642	18,263	6.90
Other instruments issued in Chile	1,296	1,336	330	
<b>Instruments issued abroad</b>				
Instruments issued by foreign Governments or Central Banks	64,033			
Instruments issued by other foreign banks	342,922	373,808		
Other instruments issued abroad	11,454	24,225	40,579	0.24
<b>Mutual fund investments</b>				
Funds managed by related companies	115,833	179,015	52,979	6.36
<b>Total</b>	<b>Ch\$ 1,516,262</b>	<b>Ch\$ 1,537,522</b>	<b>Ch\$ 679,843</b>	<b>6.22%</b>

Instruments issued by the Chilean Government and the Central Bank of Chile include instruments sold under agreements to repurchase to customers and financial institutions, amounting to Ch\$65,291 million, Ch\$53,064 million and Ch\$9,012 million as of December 31, 2006, 2007 and 2008, respectively. Other Financial Instruments include instruments sold under agreements to repurchase to customers and financial instruments, amounting to Ch\$254,764 million, Ch\$207,424 million and Ch\$263,417 million as of December 31, 2006, 2007 and 2008, respectively.

**Table of Contents***(b) Investment Portfolio:*

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

*(i) Available for sale*

	As of December 31,			Weighted Average Nominal Rate as of December 31, 2008 %
	2006	2007	2008	
	(in millions of constant Ch\$ as of December 31, 2008, except for rate data)			
<b>Instruments issued by the Chilean Government and Central Bank</b>				
Central Bank instruments	Ch\$	Ch\$	Ch\$ 381,965	2.75%
Treasury bonds or notes payable			30,251	3.48
Other government instruments			11,466	4.16
<b>Other instruments issued in Chile</b>				
Instruments issued by other banks			498,303	1.93
Bonds and commercial paper issued by companies			46,569	5.36
<b>Instruments issued abroad</b>				
Instruments issued by foreign Governments or Central Banks	46,861			
Other instruments issued abroad			102,884	6.73
<b>Total</b>	<b>Ch\$ 46,861</b>	<b>Ch\$</b>	<b>Ch\$ 1,071,438</b>	<b>2.90%</b>

As of December 31, the portfolio of available for sale instruments include a net unrealized loss of Ch\$10 million, Ch\$0 million and Ch\$16,692 million in 2006, 2007 and 2008, respectively, recorded in equity.

*(ii) Held to maturity*

	As of December 31,			Weighted Average Nominal Rate as of December 31, 2008 %
	2006	2007	2008	
	(in millions of constant Ch\$ as of December 31, 2008)			
Instruments issued by Foreign Governments or Central Banks	Ch\$ 18,717	Ch\$	Ch\$	
<b>Total</b>	<b>Ch\$ 18,717</b>	<b>Ch\$</b>	<b>Ch\$</b>	

*(c) Maturity of Financial Investments:*

The maturities of the securities trading, held to maturity and available for sale, as of December 31, 2008 was as follows:

As of December 31, 2008				
Due within 1 year	Due after 1 year but	Due after 3 years but	Due after 6 years	Total

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		within 3 years	within 6 years		
		(in millions of constant Ch\$ as of December 31, 2008)			
Trading securities <sup>(1)</sup> :	Ch\$ 679,843	Ch\$	Ch\$	Ch\$	Ch\$ 679,843
Available for sale instruments	687,112	113,257	121,257	149,812	1,071,438
Held to maturity instruments					
Total	Ch\$ 1,366,955	Ch\$ 113,257	Ch\$ 121,257	Ch\$ 149,812	Ch\$ 1,751,281

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

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

Instruments	Carrying Value	2006 Unrealized Gains (Losses)	Estimated Fair Value	As of December 31, 2007			Carrying Value	2008 Unrealized Gains (Losses)	Estimated Fair Value
				Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value			
(in millions of constant Ch\$ as of December 31, 2008)									
Instruments issued by Foreign Governments or Central Banks	Ch\$ 18,717	Ch\$	Ch\$ 18,717	Ch\$	Ch\$	Ch\$	Ch\$	Ch\$	Ch\$
Total	Ch\$ 18,717	Ch\$	Ch\$ 18,717	Ch\$	Ch\$	Ch\$	Ch\$	Ch\$	Ch\$

The portfolio of instruments available for sale and held to maturity during 2006 corresponds entirely to the positions taken by our foreign branches. In anticipation of the sale of those operations to Citigroup as part of the merger with Citibank Chile, our foreign branches liquidated these positions during the last quarter of 2007. As a result, there are no securities reported under either category as of December 31, 2007, and as of December 31, 2008.

**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.

	2004	2005	As of December 31, 2006		2007	2008
			Ch\$	Ch\$		
(in millions of constant Ch\$ as of December 31, 2008)						
<b>Commercial loans:</b>						
General commercial loans	Ch\$ 3,935,316	Ch\$ 4,459,722	Ch\$ 4,847,273	Ch\$ 5,430,444	Ch\$ 6,496,155	
Foreign trade loans	733,257	657,650	791,474	946,065	1,532,302	
Factoring loans	244,167	370,757	480,561	511,656	483,904	
Leasing loans	424,579	541,618	629,114	710,490	724,423	
Other loans	218,077	210,615	227,746	309,218	216,660	
Subtotal commercial loans	5,555,396	6,240,362	6,976,168	7,907,873	9,453,444	
<b>Mortgage loans:</b>						
Mortgage bonds	558,778	448,807	383,434	298,788	256,875	
Endorsable mortgage loans	300,863	272,259	277,577	232,813	203,996	
Residential mortgage loans	474,350	807,102	1,155,017	1,612,755	1,846,129	
Leasing loans	910	687	509			
Other Loans	75,799	80,197	2,705	1,118	1,013	
Subtotal mortgage loans	1,410,700	1,609,052	1,819,242	2,145,474	2,308,013	
<b>Consumer loans:</b>						
Consumer loans	590,636	727,318	892,066	1,000,477	1,324,250	
Credit card	171,311	208,217	237,157	240,040	312,109	
Leasing loans	780	1,266	1,668	66	54	
Other loans	170,560	191,399	220,139	235,230	251,135	
Subtotal consumer loans	933,287	1,128,200	1,351,030	1,475,813	1,887,548	

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Total loans	Ch\$ 7,899,383	Ch\$ 8,977,614	Ch\$ 10,146,440	Ch\$ 11,529,160	Ch\$ 13,649,005
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The loan categories are as follows:

Commercial Loans are loans and accounts receivable from clients not included within the mortgage or consumer loans categories.

Mortgage Loans include mortgage loans granted to individuals to acquire, expand, repair or build a home, issued as mortgage bonds, endorsable mortgage loans or by other methods. It also includes supplementary loans for the same purposes and bridge loans granted before the mortgage loan has been settled. This subcategory also includes residential real state lease transactions and other accounts receivable.

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Consumer Loans are all loans granted to individuals to be used for purchasing goods or services. These include different types of loans (either installments or revolving), as well as balances from credit card transactions or overdrafts on current accounts belonging to individuals. Consumer loans also include consumer lease transactions and other accounts receivable.

Consumer loans do not include loans granted to finance business activities that the debtor is developing or that it may develop.

**Maturity and Interest Rate Sensitivity of Loans as of December 31, 2008**

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2008:

	Balance as of December 31, 2008	Due within 1 month	Due after 1 month but within 6 months	Due after 6 months but within 12 months	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years
(in millions of constant Ch\$ as of December 31, 2008)							
<b>Commercial loans:</b>							
Commercial loans	Ch\$ 6,496,155	Ch\$ 1,026,129	Ch\$ 1,542,793	Ch\$ 626,567	Ch\$ 1,317,608	Ch\$ 786,971	Ch\$ 1,196,087
Foreign trade loans	1,532,302	533,976	829,770	49,491	62,225	47,077	9,763
Factoring loans	483,904	124,113	219,705	45,148	94,353	305	280
Leasing loans	724,423	32,186	95,347	107,371	262,477	102,912	124,130
Other loans	216,660	28,670	304	366			187,320
<b>Subtotal</b>	<b>9,453,444</b>	<b>1,745,074</b>	<b>2,687,919</b>	<b>828,943</b>	<b>1,736,663</b>	<b>937,265</b>	<b>1,517,580</b>
<b>Mortgage Loans:</b>							
Mortgage bonds	256,875	5,007	11,027	13,546	52,701	49,600	124,994
Endorsable mortgage loans	203,996	2,274	6,297	7,744	33,002	33,464	121,215
Residential mortgage loans	1,846,129	42,427	38,012	46,259	190,824	199,077	1,329,530
Leasing loans							
Other loans	1,013	128	77	85	296	245	182
<b>Subtotal</b>	<b>2,308,013</b>	<b>49,836</b>	<b>55,413</b>	<b>67,634</b>	<b>276,823</b>	<b>282,386</b>	<b>1,575,921</b>
<b>Consumer loans:</b>							
Consumer loans	1,324,250	104,707	226,161	232,951	604,981	141,908	13,542
Credit card	312,109	283,145	28,964				
Leasing loans	54	3	6	8	33	4	
Other loans	251,135	3,430					247,705
<b>Subtotal</b>	<b>1,887,548</b>	<b>391,285</b>	<b>255,131</b>	<b>232,959</b>	<b>605,014</b>	<b>141,912</b>	<b>261,247</b>
<b>Total loans</b>	<b>Ch\$ 13,649,005</b>	<b>Ch\$ 2,186,195</b>	<b>Ch\$ 2,998,463</b>	<b>Ch\$ 1,129,536</b>	<b>Ch\$ 2,618,500</b>	<b>Ch\$ 1,361,563</b>	<b>Ch\$ 3,354,748</b>

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The following table presents the interest rate sensitivity of our outstanding loans due after one year as of December 31, 2008:

	<b>As of December 31, 2008</b> <b>(in millions of constant Ch\$ as</b> <b>of December 31, 2008)</b>	
Variable rate		
Ch\$	Ch\$	1,028,999
UF		551,135
Foreign currency		242,626
<b>Total</b>		<b>1,822,760</b>
Fixed rate		
Ch\$		1,214,436
UF		4,192,079
Foreign currency		105,536
<b>Total</b>		<b>5,512,051</b>
<b>Total</b>	<b>Ch\$</b>	<b>7,334,811</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.

	2006		As of December 31, 2007		2008	
	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio
(in millions of constant Ch\$ as of December 31, 2008 except for percentages)						
<b>Agriculture, Livestock, Forestry, Agribusiness, Fishing:</b>						
Agriculture and livestock	Ch\$ 214,342	2.11%	Ch\$ 225,479	1.96%	Ch\$ 280,506	2.06%
Fruit	219,513	2.16	209,687	1.82	251,199	1.84
Forestry and wood extraction	18,788	0.19	16,718	0.15	17,891	0.13
Fishing	52,234	0.51	82,725	0.72	164,905	1.21
Subtotal	504,877	4.97	534,609	4.65	714,501	5.24
<b>Mining and Petroleum:</b>						
Mining and quarries	25,807	0.25	39,668	0.34	201,631	1.48
Natural gas and crude oil extraction	887	0.01	213		8,408	0.06
Subtotal	26,694	0.26	39,881	0.34	210,039	1.54
<b>Manufacturing:</b>						
Tobacco, food and beverages	181,286	1.79	205,433	1.78	257,100	1.88
Textiles, clothing and leather goods	106,531	1.05	119,443	1.04	139,503	1.02
Wood and wood products	57,224	0.56	79,201	0.69	70,323	0.52
Paper, printing and publishing	79,458	0.78	53,240	0.46	47,901	0.35
Oil refining, carbon and rubber	86,151	0.85	137,490	1.19	162,043	1.19
Production of basic metal, non-mineral, machine and equipment	252,464	2.49	302,987	2.63	403,196	2.95
Other manufacturing industries	76,131	0.75	72,142	0.63	82,332	0.60
Subtotal	839,245	8.27	969,936	8.42	1,162,398	8.51
<b>Electricity, Gas and Water:</b>						
Electricity, gas and water	72,107	0.71	110,072	0.95	207,734	1.52
Subtotal	72,107	0.71	110,072	0.95	207,734	1.52
<b>Construction:</b>						
Residential buildings	313,155	3.09	318,211	2.76	336,952	2.47
Other constructions	555,744	5.48	626,726	5.44	626,682	4.59
Subtotal	868,899	8.57	944,937	8.20	963,634	7.06
<b>Commerce:</b>						
Wholesale	437,813	4.31	418,822	3.63	601,745	4.41
Retail, restaurants and hotels	598,284	5.90	677,816	5.88	837,112	6.13
Subtotal	1,036,097	10.21	1,096,638	9.51	1,438,857	10.54

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<b>Transport, Storage and Communications:</b>						
Transport and storage	263,456	2.60	285,310	2.47	266,888	1.96
Communications	36,595	0.36	83,693	0.73	97,495	0.71
Subtotal	300,051	2.96	369,003	3.20	364,383	2.67
<b>Financial Services:</b>						
Financial and insurance companies	987,906	9.74	1,044,509	9.04	1,164,427	8.54
Holding companies and other financial services	976,255	9.62	1,077,496	9.35	1,123,834	8.23
Subtotal	1,964,161	19.36	2,122,005	18.39	2,288,261	16.77
<b>Community, Social and Personal Services:</b>						
Community, social and personal services	1,364,037	13.44	1,720,792	14.93	2,103,637	15.41
Subtotal	1,364,037	13.44	1,720,792	14.93	2,103,637	15.41
Consumer Loans	1,351,030	13.32	1,475,813	12.80	1,887,548	13.83
Residential Mortgage Loans	1,819,242	17.93	2,145,474	18.61	2,308,013	16.91
Total	Ch\$ 10,146,440	100.00%	Ch\$ 11,529,160	100.00%	Ch\$ 13,649,005	100.00%

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

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

	As of December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
	Ch\$	Ch\$	Ch\$
Argentina	126	109	4,481
Australia	20,790		
Austria	5,094	796	391
Belgium	38,994	991	870
Brazil	80,065	31,878	62,438
Canada	2,911	156	3,805
China	46,587	67,782	29,000
Colombia	256	114	7,621
Czech Republic	35	34	38
Dinamarca		255	
El Salvador	52	64	48
Finland	631	53	321
France	15,523	3,052	12,908
Germany	3,382	7,992	26,291
Holland		10,558	718
Hong Kong	9,126	87	13
India	12,982	28,884	25,222
Israel	86	878	777
Island	146		
Italy	1,454	1,300	3,408
Japan	4,512	6,399	2,426
Mexico	3,688	2,413	63
Netherlands		387	
New Zealand	413	54	
Norway	99		
Oman	452	64	
Panama	3,514	265	309
Paraguay	2,665		
Perú	5,807	7,551	8,709
Portugal			443
Singapore	73		
South Africa	250	7,277	1
South Korea	45,073	50,943	14,019
Spain	151	39	111
Switzerland	109	60	16
Sweden	485	2,900	174
Taiwan	989	4,696	13
United Arab Emirates	156		68
United Kingdom	48,101	21,838	20,848
United States	9,402	7,895	3,072
Uruguay	1,979	1,330	1,106
Venezuela	6,536	5,441	6,395
Total	Ch\$ 372,694	Ch\$ 274,535	Ch\$ 236,123



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

	As of December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
	Ch\$	Ch\$	Ch\$
Australia	90	83	115
Austria	158	146	148
Belgium	317	364	438
Canada	472	463	809
China	85	20	19
Denmark	42	40	67
Finland	124	187	107
France	194	484	163
Germany	8,360	5,007	11,813
Holland			23
Italy	5,393	3,305	606
Japan	16,694	2,067	42,807
Netherlands		130	
Norway	121	91	6
Russia		29	299
Spain	669	1,030	787
Sweden	191	115	85
Switzerland	123	435	453
United Kingdom	659	1,290	7,475
United States	36,162	64,285	213,021
<b>Total</b>	<b>Ch\$ 69,854</b>	<b>Ch\$ 79,571</b>	<b>Ch\$ 279,241</b>

**Credit Review Process**

Credit risk in Banco de Chile is managed with a global and unified strategy, oriented to the future, which recognizes the current and projected economic environment of the markets in which the Bank's different businesses are developing. This strategy also establishes standardized criteria that take account of the policies that the Corporate Credit Risk and Market Risk Division and the Individual Credit Risk Division propose to the Board of Directors for approval.

The Bank's credit policies and processes recognize the singularities of the different markets and segments, and grant appropriate credit treatment to each which, in general terms, translates into the implementation of the following three credit-risk approval models:

**Automated Model:** This model is directed to the individuals of the mass-market segment (i.e., not business-related) and is based on the integral automation of processes (admission, approval, follow-up and recovery) and scoring- and behavior-based approval systems. The Bank has also developed a broad level of intelligence in the selection of customers, with a significant capacity to discriminate between subjects of different credit bases. Therefore, different models, with different segments, exist for Individual Banking. Regarding lower-middle to middle income segment (i.e., Banco CrediChile), there are further distinctions for employed customers (separated into 5 sub-segments), and for independents. In the high income segment, there are sub-segments divided by activity and length of relationship with the Bank.

**Parametric Model:** This model is applied to small- and medium-sized enterprises and individuals in business. For analyzing these segments, a certain level of automation and limitation is used in evaluation. Automation currently provides a fundamental pillar of the pre-approval processes for small companies, and a support for the potential evaluation processes of medium companies.

**Case-by-Case Model:** This model is dedicated to the large companies and corporate market. Characterized by individual expert evaluation of risk level, operation amount, business complexity, etc.



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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. These include, 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 yet completed.

Transactions in which the total customer credit risk is more than UF 750,000 (approximately Ch\$15,717 million) require approval by 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 750,000 may be approved by other executives, depending on the amount involved, as follows:

<b>Approved by</b>	<b>Limit in UF</b>
Credit committee, including members of the board of directors	up to legal limits
Chief executive officer, chairman and senior credit risk officer	up to UF 750,000
Chief executive officer, chairman or senior credit risk officer (any two of the three)	up to UF 500,000
Chief executive officer and executive credit risk officers	up to UF 350,000
Senior credit risk officers and executive vice president of corporate banking	up to UF 350,000
Executive credit risk officers and Executive vice president of corporate banking	up to UF 140,000
Other credit risk officers	up to UF 50,000
Executive vice president of corporate banking	up to UF 50,000
Other department heads	up to UF 20,000
Other officers	up to UF 10,000

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

To evaluate a customer's credit risk, our commercial executives use various databases that provide information such as the customer's profile, indebtedness to us, financial statements, monthly sales information, profitability reports, indebtedness to other Chilean financial institutions and payment history with other creditors. For this purpose, the Chilean Superintendency of Banks makes information regarding a customer's indebtedness within the financial system available to banks.

The risk control division periodically reviews the quality of our loans, including the related loan classifications. Constant control and credit risk follow-up is the basis of proactive portfolio management and allows opportune risk recognition, identifying business opportunities and detecting eventual deteriorations in advance.

In the Companies market, control and follow-up is centered around a combination of revisions, the most relevant of which are the following:

Structured portfolio fast-revision schemes, according to the impact of specific macroeconomic fluctuations in sectors of activity, defining case-by-case actions plans.

Constant vigilance system for advance detection of those customers who show potential risks, and agreeing specific action plans for these customers with the commercial areas of the Bank.

Payment arrears management, backed by predictive indicators of risk level, with follow-up and action plans regarding the most important customers, plus management of differentiated strategies for early recovery.

Follow-up of the conditions, restrictions and covenants imposed by the credit committee to all operations requiring it due to their importance or complexity.

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Control of exposure and share guarantee coverage, monitoring fluctuations and preparing action plans in the event of the loss of minimum cover.

Follow-up schemes of credit behavior variables and financial figures of the companies.

Risk segmentation strategies in the collection processes and policies, achieving improvements in the integration of the approval and follow-up processes, aligned with a related vision of customers credit fundamentals.

**Analysis of Our Loan Classification**

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

Individual Analysis Category	As of December 31, 2004				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
A1	Ch\$ 11,162	Ch\$	Ch\$	Ch\$ 11,162	0.19%
A2	1,192,227	91,345	64,653	1,348,225	23.91
A3	1,637,082	15,347	39,657	1,692,086	30.01
B	1,987,644	34,474	74,845	2,096,963	37.19
C1	228,202	7,542	11,648	247,392	4.39
C2	73,973	1,068	5,191	80,232	1.42
C3	34,308	407	1,237	35,952	0.64
C4	60,801	461	1,172	62,434	1.11
D1	43,060	309	111	43,480	0.77
D2	19,820	607	380	20,807	0.37
Subtotal classified loans	Ch\$ 5,288,279	Ch\$ 151,560	Ch\$ 198,894	Ch\$ 5,638,733	100.00%

Group Analysis Category	As of December 31, 2004				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
A	Ch\$ 187,211	Ch\$ 708,582	Ch\$ 1,132,287	Ch\$ 2,028,080	89.94%
B	56,979	47,659	58,068	162,706	7.21
B	13,667	10,686	21,451	45,804	2.03
C	2,042	8,140		10,182	0.45
D	1,745	6,660		8,405	0.37
Subtotal classified loans	Ch\$ 261,644	Ch\$ 781,727	Ch\$ 1,211,806	Ch\$ 2,255,177	100.00%
Total classified loans	Ch\$ 5,549,923	Ch\$ 933,287	Ch\$ 1,410,700	Ch\$ 7,893,910	
Total loans	Ch\$ 5,555,396	Ch\$ 933,287	Ch\$ 1,410,700	Ch\$ 7,899,383	
Percentage classified	99.90%	100.00%	100.00%	99.93%	

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Individual Analysis Category	As of December 31, 2005					Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans		
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)					
A1	Ch\$ 15,172	Ch\$	Ch\$	Ch\$ 15,172		0.24%
A2	1,181,745	112,889	62,746	1,357,380		21.25
A3	2,076,170	15,800	38,377	2,130,347		33.35
B	2,352,990	48,629	91,893	2,493,512		39.04
C1	213,070	8,402	10,474	231,946		3.63
C2	49,031	1,803	5,694	56,528		0.89
C3	18,797	478	1,390	20,665		0.32
C4	38,007	449	485	38,941		0.61
D1	26,220	449	493	27,162		0.43
D2	14,400	947	79	15,426		0.24
Subtotal classified loans	Ch\$ 5,985,602	Ch\$ 189,846	Ch\$ 211,631	Ch\$ 6,387,079		100.00%

Group Analysis Category	As of December 31, 2005					Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans		
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)					
A	Ch\$ 180,216	Ch\$ 859,345	Ch\$ 1,329,148	Ch\$ 2,368,709		91.57%
B	57,816	47,478	50,827	156,121		6.03
B	10,812	12,448	17,446	40,706		1.57
C	1,444	10,122		11,566		0.45
D	964	8,961		9,925		0.38
Subtotal classified loans	Ch\$ 251,252	Ch\$ 938,354	Ch\$ 1,397,421	Ch\$ 2,587,027		100.00%
Total classified loans	Ch\$ 6,236,854	Ch\$ 1,128,200	Ch\$ 1,609,052	Ch\$ 8,974,106		
Total loans	Ch\$ 6,240,362	Ch\$ 1,128,200	Ch\$ 1,609,052	Ch\$ 8,977,614		
Percentage classified	99.94%	100.00%	100.00%	99.96%		

Individual Analysis Category	As of December 31, 2006					Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans		
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)					
A1	Ch\$ 175,607	Ch\$ 1	Ch\$	Ch\$ 175,608		2.45%
A2	1,254,988	107,857	55,819	1,418,664		19.72
A3	2,428,652	15,366	30,941	2,474,959		34.40
B	2,609,414	79,751	93,050	2,782,215		38.67
C1	191,404	13,541	10,595	215,540		3.00
C2	49,159	1,929	4,517	55,605		0.77
C3	13,105	695	763	14,563		0.20
C4	22,234	426	421	23,081		0.32
D1	20,044	426	258	20,728		0.29
D2	11,589	1,370	52	13,011		0.18
Subtotal classified loans	Ch\$ 6,776,196	Ch\$ 221,362	Ch\$ 196,416	Ch\$ 7,193,974		100.00%



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Group Analysis Category	As of December 31, 2006				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
A	Ch\$ 115,492	Ch\$ 985,398	Ch\$ 1,554,834	Ch\$ 2,655,724	90.20%
B	62,812	91,943	53,040	207,795	7.06
B	10,860	21,818	14,952	47,630	1.62
C	1,764	17,783		19,547	0.66
D	795	12,726		13,521	0.46
Subtotal classified loans	Ch\$ 191,723	Ch\$ 1,129,668	Ch\$ 1,622,826	Ch\$ 2,944,217	100.00%
Total classified loans	Ch\$ 6,967,919	Ch\$ 1,351,030	Ch\$ 1,819,242	Ch\$ 10,138,191	
Total loans	Ch\$ 6,976,168	Ch\$ 1,351,030	Ch\$ 1,819,242	Ch\$ 10,146,440	
Percentage classified	99.88%	100.00%	100.00%	99.92%	

Individual Analysis Category	As of December 31, 2007				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
A1	Ch\$ 216,641	Ch\$	Ch\$	Ch\$ 216,641	2.68%
A2	1,640,818	115,746	53,828	1,810,392	22.43
A3	2,532,028	13,694	30,726	2,576,448	31.91
B	2,904,412	91,308	133,102	3,128,822	38.76
C1	188,270	16,562	13,023	217,855	2.70
C2	55,761	1,859	4,548	62,168	0.77
C3	11,022	727	515	12,264	0.15
C4	19,616	578	530	20,724	0.26
D1	9,479	440	144	10,063	0.12
D2	16,553	1,029	56	17,638	0.22
Subtotal classified loans	Ch\$ 7,594,600	Ch\$ 241,943	Ch\$ 236,472	Ch\$ 8,073,015	100.00%

Group Analysis Category	As of December 31, 2007				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
A	Ch\$ 193,385	Ch\$ 1,082,251	Ch\$ 1,836,487	Ch\$ 3,112,123	90.58%
B	87,969	97,489	56,912	242,370	7.05
B-	8,629	21,638	15,603	45,870	1.34
C	2,192	17,659		19,851	0.58
D	601	14,833		15,434	0.45
Subtotal classified loans	Ch\$ 292,776	Ch\$ 1,233,870	Ch\$ 1,909,002	Ch\$ 3,435,648	100.00%
Total classified loans	Ch\$ 7,887,376	Ch\$ 1,475,813	Ch\$ 2,145,474	Ch\$ 11,508,663	
Total loans	Ch\$ 7,907,873	Ch\$ 1,475,813	Ch\$ 2,145,474	Ch\$ 11,529,160	
Percentage classified	99.74%	100.00%	100.00%	99.82%	



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Individual Analysis Category	As of December 31, 2008				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
A1	Ch\$ 265,121	Ch\$ 60	Ch\$ 14	Ch\$ 265,195	2.73%
A2	2,427,456	141,317	45,720	2,614,493	26.82
A3	2,373,279	10,964	27,495	2,411,738	24.74
B	3,641,489	105,709	180,271	3,927,469	40.29
C1	220,492	14,472	14,610	249,574	2.56
C2	155,300	10,952	12,500	178,752	1.83
C3	30,186	1,205	1,785	33,176	0.34
C4	17,666	920	1,065	19,651	0.20
D1	12,889	497	180	13,566	0.14
D2	31,102	3,001	97	34,200	0.35
Subtotal classified loans	Ch\$ 9,174,980	Ch\$ 289,097	Ch\$ 283,737	Ch\$ 9,747,814	100.00%

Group Analysis Category	As of December 31, 2008				Percentage of Classified Loans
	Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
A	Ch\$ 169,121	Ch\$ 1,292,747	Ch\$ 1,946,684	Ch\$ 3,408,552	87.54%
B	77,776	194,806	61,778	334,360	8.59
B-	13,645	43,579	15,814	73,038	1.88
C	9,709	38,988		48,697	1.25
D	338	28,331		28,669	0.74
Subtotal classified loans	Ch\$ 270,589	Ch\$ 1,598,451	Ch\$ 2,024,276	Ch\$ 3,893,316	100.00%
Total classified loans	Ch\$ 9,445,569	Ch\$ 1,887,548	Ch\$ 2,308,013	Ch\$ 13,641,130	
Total loans	Ch\$ 9,453,444	Ch\$ 1,887,548	Ch\$ 2,308,013	Ch\$ 13,649,005	
Percentage classified	99.92%	100.00%	100.00%	99.94%	

**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.

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>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>(in millions of constant Ch\$ as of December 31, 2008)</b>				
Current	Ch\$ 7,393,996	Ch\$ 8,592,432	Ch\$ 9,651,934	Ch\$ 11,096,304	Ch\$ 13,222,752
Overdue 1-29 days	34,588	54,057	31,808	74,281	86,306
Overdue 30-89 days	14,333	7,420	17,858	17,255	21,873
Overdue 90 days or more ( past due )	104,767	85,179	72,146	66,785	81,950
<b>Total loans</b>	<b>Ch\$ 7,547,684</b>	<b>Ch\$ 8,739,088</b>	<b>Ch\$ 9,773,746</b>	<b>Ch\$ 11,254,625</b>	<b>Ch\$ 13,412,881</b>

	<b>Foreign Loans</b>				
	<b>As of December 31,</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>(in millions of constant Ch\$ as of December 31, 2008)</b>				
Current	Ch\$ 351,699	Ch\$ 238,503	Ch\$ 372,694	Ch\$ 274,535	Ch\$ 236,123
Overdue 1-29 days					
Overdue 30-89 days					
Overdue 90 days or more ( past due )		23			
<b>Total loans</b>	<b>Ch\$ 351,699</b>	<b>Ch\$ 238,526</b>	<b>Ch\$ 372,694</b>	<b>Ch\$ 274,535</b>	<b>Ch\$ 236,123</b>

	<b>Total Loans</b>				
	<b>As of December 31,</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>(in millions of constant Ch\$ as of December 31, 2008)</b>				
Current	Ch\$ 7,745,695	Ch\$ 8,830,935	Ch\$ 10,024,628	Ch\$ 11,370,839	Ch\$ 13,458,875
Overdue 1-29 days	34,588	54,057	31,808	74,281	86,306
Overdue 30-89 days	14,333	7,420	17,858	17,255	21,873
Overdue 90 days or more ( past due )	104,767	85,202	72,146	66,785	81,951
<b>Total loans</b>	<b>Ch\$ 7,899,383</b>	<b>Ch\$ 8,977,614</b>	<b>Ch\$ 10,146,440</b>	<b>Ch\$ 11,529,160</b>	<b>Ch\$ 13,649,005</b>

Overdue loans expressed as a percentage of total loans	1.95%	1.63%	1.20%	1.37%	1.39%
Past due loans as a percentage of total loans	1.33%	0.95%	0.71%	0.58%	0.60%

We suspend the accrual of interest on any loan when there is a high risk of unrecoverability or from the first day when it becomes past due. The amount of interest that would have been recorded on overdue loans if they had been accruing interest was Ch\$3,965 million for the year ended December 31, 2008.



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

	2004	2005	As of December 31, 2006		2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)					
Ch\$	Ch\$ 5,209	Ch\$ 4,916	Ch\$ 5,582	Ch\$ 4,990	Ch\$ 4,583	
UF	644	184			32	
<b>Total</b>	<b>Ch\$ 5,853</b>	<b>Ch\$ 5,100</b>	<b>Ch\$ 5,582</b>	<b>Ch\$ 4,990</b>	<b>Ch\$ 4,615</b>	

The amount of interest that we would have recorded on these loans for the year ended December 31, 2008 if these loans had been earning a market interest rate was Ch\$255 million.

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

	2006	As of December 31, 2007		2008
	(in millions of constant Ch\$ as of December 31, 2008)			
Total other restructured loans	Ch\$ 80,455	Ch\$ 87,374	Ch\$ 134,519	

During the year ended December 31, 2008, interest recorded in income on these loans amounted to Ch\$24,458 million.

**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. 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.

	2004	2005	As of December 31, 2006		2007	2008
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)					
Total loans	Ch\$ 7,899,383	Ch\$ 8,977,614	Ch\$ 10,146,440	Ch\$ 11,529,160	Ch\$ 13,649,005	
Substandard loans <sup>(1)</sup>	Ch\$ 554,688	Ch\$ 452,865	Ch\$ 423,226	Ch\$ 421,867	Ch\$ 679,323	
Substandard loans as a percentage of total loans	7.02%	5.04%	4.17%	3.66%	4.98%	
Amounts past due <sup>(2)</sup>						
To the extent secured <sup>(3)</sup>	Ch\$ 70,761	Ch\$ 60,010	Ch\$ 49,331	Ch\$ 38,840	Ch\$ 31,054	
To the extent unsecured	34,006	25,190	22,816	27,945	50,896	
<b>Total amount past due</b>	<b>Ch\$ 104,767</b>	<b>Ch\$ 85,200</b>	<b>Ch\$ 72,147</b>	<b>Ch\$ 66,785</b>	<b>Ch\$ 81,950</b>	
Amounts past due as a percentage of total loans	1.33%	0.95%	0.71%	0.58%	0.60%	
To the extent secured <sup>(2)</sup>	0.90	0.67	0.49	0.34	0.23	
To the extent unsecured	0.43	0.28	0.22	0.24	0.37	
Allowances for loans losses as a percentage of:						
Total loans	2.03	1.54	1.38	1.27	1.66	

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Total amounts past due	152.81	162.56	194.45	219.80	277.24
Total amounts past due-unsecured	470.78%	549.82%	614.87%	525.30%	446.40%

- (1) 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:

	2004	2005	As of December 31, 2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)				
Allowances for loan losses at beginning of period	Ch\$ 196,647	Ch\$ 160,094	Ch\$ 138,500	Ch\$ 140,288	Ch\$ 146,794
Balance of allowances for loan losses from Citibank Chile S.A. <sup>(1)</sup>					20,840
Charge-offs	(122,600)	(80,417)	(70,960)	(77,933)	(104,914)
Allowances established	91,565	66,285	75,739	94,332	176,840
Allowances released <sup>(2)</sup>	(721)	(1,901)	(140)	(228)	(9)
Price-level restatement <sup>(3)</sup>	(4,797)	(5,561)	(2,851)	(9,665)	(12,350)
Allowances for loan losses at end of period	Ch\$ 160,094	Ch\$ 138,500	Ch\$ 140,288	Ch\$ 146,794	Ch\$ 227,201
Ratio of charge-offs to average loans	1.49%	0.90%	0.76%	0.75%	0.82%
Allowances for loan losses at end of period as a percentage of total loans	2.07%	1.57%	1.38%	1.27%	1.66%

(1) Total allowances for loan losses corresponding to Citibank Chile after the merger with Banco de Chile as of January 1, 2008.

(2) 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.

(3) 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, 2008.

As a result of an improvement in economic conditions in 2005, 2006 and 2007, coupled with a more effective credit and collection policy, allowances and the risk index decreased in such period. Based on the information we have available about our debtors, we believe that our allowances for loan losses are sufficient to cover known potential losses and losses inherent in a loan portfolio of this size and nature.

As a result of the deterioration of the economic conditions during the second quarter of 2008, allowances as a percentage of total loans increased during 2008 at a higher rate than in prior years when economic conditions were more favorable.

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

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24 months after being classified as past due. Secured loans must be written off within 36 months after being classified as past due. However, the bank policies establish that a credit must be written-off before the 36 months if it is certain that the overdue loans will not be recovered.

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

	Year ended December 31,				
	2004	2005	2006	2007	2008
(in millions of constant Ch\$ as of December 31, 2008)					
Commercial loans	Ch\$ 85,798	Ch\$ 41,210	Ch\$ 32,443	Ch\$ 31,286	Ch\$ 22,663
Mortgage loans	14,586	15,971	11,460	3,621	2,802
Consumer loans	22,216	23,236	27,057	43,026	79,449
Total	Ch\$ 122,600	Ch\$ 80,417	Ch\$ 70,960	Ch\$ 77,933	Ch\$ 104,914

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

	Year ended December 31,				
	2004	2005	2006	2007	2008
(in millions of constant Ch\$ as of December 31, 2008)					
Comercial loans	Ch\$ 24,404	Ch\$ 24,547	Ch\$ 19,203	Ch\$ 21,818	Ch\$ 16,375
Mortgage loans		503	2,453	4,405	3,390
Consumer loans	10,602	13,749	11,165	11,607	19,605
Subtotal	Ch\$ 35,006	Ch\$ 38,799	Ch\$ 32,821	Ch\$ 37,830	Ch\$ 39,370
Recoveries and sales of loans reacquired from the Central Bank	Ch\$ 6,652	Ch\$ 591	Ch\$ 45	Ch\$ 420	Ch\$ 278
Total	Ch\$ 41,658	Ch\$ 39,390	Ch\$ 32,866	Ch\$ 38,250	Ch\$ 39,648

**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 at each such date.

	Allowance amount <sup>(1)</sup>	2004			2005			Loans in category as percentage of total loans <sup>(2)</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 total loans	Loans in category as percentage of total loans <sup>(2)</sup>	
Commercial loans	Ch\$ 123,694	2.23%	1.57%	70.33%	Ch\$ 94,845	1.52%	1.06%	69.51%
Consumer loans	27,003	2.89	0.34	11.81	34,862	3.09	0.39	12.57
Residential mortgage loans	9,397	0.67	0.12	17.86	8,793	0.55	0.09	17.92
Total allocated allowances	Ch\$ 160,094	2.03%	2.03%	100.00%	Ch\$ 138,500	1.54%	1.54%	100.00%



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	Allowance amount <sup>(1)</sup>	2006		
		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\$ 84,568	1.21%	0.83%	68.75%
Consumer loans	47,951	3.55	0.47	13.32
Residential mortgage loans	7,769	0.43	0.08	17.93
Total allocated allowances	Ch\$ 140,288	1.38%	1.38%	100.00%

	Allowance amount <sup>(1)</sup>	2007			Allowance amount <sup>(1)</sup>	2008		
		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 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\$ 82,185	1.04%	0.71%	68.59%	Ch\$ 124,777	1.32%	0.91%	69.26%
Consumer loans	56,286	3.81	0.49	12.80	91,226	4.83	0.67	13.83
Residential mortgage loans	8,323	0.39	0.07	18.61	11,198	0.49	0.08	16.91
Total allocated allowances	Ch\$ 146,794	1.27%	1.27%	100.00%	Ch\$ 227,201	1.66%	1.66%	100.00%

(1) In millions of constant pesos as of December 31, 2008.

(2) Based on our loan classification.

The following table sets forth our charge-offs for 2006, 2007 and 2008 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,		
	2006	2007	2008
(in millions of constant Ch\$ as of December 31, 2008)			
Commercial:			
Agriculture	Ch\$ 1,280	Ch\$ 3,113	Ch\$ 1,403
Mining	59	1,060	29
Manufacturing	2,313	3,243	2,176
Construction	6,878	7,166	1,672
Commerce	3,293	8,807	8,143
Transport	586	1,151	780
Financial services	13,555	4,772	2,687
Community	4,479	1,974	5,773
Subtotal:	Ch\$ 32,443	Ch\$ 31,286	Ch\$ 22,663
Consumer loans	27,057	43,026	79,449
Mortgage loans	11,460	3,621	2,802

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Total	Ch\$ 70,960	Ch\$ 77,933	Ch\$ 104,914
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**Table of Contents****Composition of Deposits and Other Commitments**

The following table sets forth the composition of our deposits and similar commitments at December 31, 2006, 2007 and 2008. See Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities for the average rate paid on each of the following deposit categories.

	As of December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
Current accounts	Ch\$ 2,033,875	Ch\$ 2,135,997	Ch\$ 2,534,753
Other demand deposits	588,871	599,684	472,508
Savings accounts	160,707	151,510	157,271
Time deposits	6,607,114	6,978,377	8,309,719
Other term balance payables	2,697	4,341	5,600
Total	Ch\$ 9,393,264	Ch\$ 9,869,909	Ch\$ 11,479,851

**Maturity of Deposits**

The following table sets forth information regarding the currency and maturity of our deposits at December 31, 2008, expressed in percentages. UF-denominated deposits are similar to Chilean peso-denominated deposits in all aspects, except that the principal is readjusted periodically based on variations in the Consumer Price Index.

	Ch\$	UF	Foreign Currency	Total
Demand deposits	39.39%		18.78%	26.19%
Savings accounts		5.68		1.37
Time deposits:				
Maturing within three months	47.84	27.11	67.03	46.28
Maturing after three but within six months	8.30	25.19	11.17	12.89
Maturing after six but within 12 months	2.91	25.04	2.98	8.26
Maturing after 12 months	1.56	16.98	0.04	5.01
Total time deposits	60.61	94.32	81.22	72.44
Total deposits	100.00%	100.00%	100.00%	100.00%

The following table sets forth information regarding the currency and maturity of deposits in excess of U.S.\$100,000 as of December 31, 2008:

	Ch\$	UF	Foreign Currency	Total
	(in millions of constant Ch\$ as of December 31, 2008)			
Time deposits:				
Maturing within three months	Ch\$ 2,049,119	Ch\$ 575,740	Ch\$ 1,190,764	Ch\$ 3,815,623
Maturing after three but within six months	543,460	679,171	227,209	1,449,640
Maturing after six but within 12 months	189,606	672,779	59,743	922,128
Maturing after 12 months	97,494	468,599	615	566,708
Total time deposits	Ch\$ 2,879,679	Ch\$ 2,396,289	Ch\$ 1,478,131	Ch\$ 6,754,099



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

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

	2006	As of December 31, 2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
Banco de Chile's regulatory capital	Ch\$ 747,813	Ch\$ 881,115	Ch\$ 1,297,735
Minimum regulatory capital required	(451,291)	(480,626)	(593,849)
Excess over minimum regulatory capital required	Ch\$ 296,522	Ch\$ 400,489	Ch\$ 703,886

**Short-term Borrowings**

Our short-term borrowings (other than deposits) totaled Ch\$ 820,410 million as of December 31, 2006, Ch\$ 698,357 million as of December 31, 2007 and Ch\$ 1,966,901 million as of December 31, 2008.

The principal categories of our short-term borrowings are amounts borrowed under foreign trade lines of credit, domestic inter-bank 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:

	2006		For the year ended December 31, 2007		2008	
	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, 2008, except for rate data)					
Investments sold under agreements to repurchase	Ch\$ 365,080	4.85%	Ch\$ 386,795	6.31%	Ch\$ 420,658	6.13%
Borrowings from domestic financial institutions	104,193	4.96	80,529	4.40	2,598	0.08
Foreign borrowings	318,345	4.86	167,865	4.15	1,495,644	2.76
Other obligations	32,792		63,348		48,001	
Total short-term borrowings	Ch\$ 820,410	4.67%	Ch\$ 698,357	5.00%	Ch\$ 1,966,901	3.41%

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

	2006		For the year ended December 31, 2007		2008	
	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, 2008, except for rate data)					
Investments sold under agreements to repurchase	Ch\$ 318,064	4.34%	Ch\$ 340,891	5.93%	Ch\$ 462,127	6.16%
Central Bank borrowings	1,572	0.70	707	1.38	432	1.91
	221,761	1.86	245,933	1.77	267,075	0.54

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Borrowings from domestic  
financial institutions

Sub-total	Ch\$	541,397	3.31%	Ch\$	587,531	4.19%	Ch\$	729,634	4.10%
Foreign borrowings		673,410	1.03		681,106	0.74		1,157,045	0.25
Total short-term borrowings	Ch\$	1,214,807	2.05%	Ch\$	1,268,637	2.34%	Ch\$	1,886,679	1.74%

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

	Maximum 2006 month-end balance	Maximum 2007 month-end balance	Maximum 2008 month-end balance
	(in millions of constant Ch\$ as of December 31, 2008)		
Investments sold under agreements to repurchase	Ch\$ 365,464	Ch\$ 375,550	Ch\$ 661,858
Central Bank borrowings	85,464	76,939	682
Borrowings from domestic financial institutions	410,069	365,869	168,206
Foreign borrowings	Ch\$ 361,038	Ch\$ 175,854	Ch\$ 1,585,313

**Item 4A. Unresolved Staff Comments**

None.

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

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

We prepare our audited consolidated financial statements in accordance with Chilean GAAP (including the rules of the Chilean Superintendency of Banks related thereto), which differ in certain significant aspects from U.S. GAAP. Note 34 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, 2006, 2007 and 2008 and equity at December 31, 2007 and 2008.

Pursuant to Chilean GAAP, the financial data presented in this section for all full-year periods are restated in constant pesos of December 31, 2008. See Presentation of Financial Information and Note 1 to our audited consolidated financial statements.

**Overview**

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

After a period of accelerated growth between 1985 and 1997, when Chile's gross domestic product grew at an average annual rate of 7.2%, Chile's economic growth slowed to an average rate of 4.3% between 2000 and 2008. In 2008, Chile's gross domestic product grew by 3.2%, following an increase of 4.7% in 2007. The slowdown in the Chilean economy during 2008, was due to the weakening of the global economy and internal demand deceleration. However, Chile has maintained a relatively stable financial condition as a result of the earlier accumulation of international reserves and fiscal restraint.

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

***Inflation***

Historically, Chile has experienced high levels of inflation that have significantly affected our financial condition and results of operations. Inflation has remained relatively low during much of the current decade. However, inflation in 2008 and 2007 has been relatively high (7.1% in 2008 and 7.8% in 2007), primarily as a result of the sharp increase in international oil and food prices. During the first five months of 2009, we experienced a negative inflation rate of 1.1% as a result of the turmoil of the global economy, which has involved lower prices of commodities and weaker demand.

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

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

Until December 31, 2008, our non-monetary assets, liabilities and capital and reserves were restated monthly to adjust for inflation, with the net gain or loss resulting from the adjustment reflected in income (See Item 5 Changes in Accounting Principles Standards that will be applicable starting 2009); and

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

*UF-denominated Assets and Liabilities.* The UF is revalued in monthly cycles. On each 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\$18,336.38 at December 31, 2006, Ch\$19,622.66 at December 31, 2007 and Ch\$21,452.57 (U.S.\$34.1) at December 31, 2008. 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\$1,795,251 million during the year ended December 31, 2006, Ch\$1,771,864 million during the year ended December 31, 2007 and Ch\$2,144,686 million (U.S.\$ 3,409 million) during the year ended December 31, 2008. These numbers exclude capital and reserves and derivatives. See Item 4. Information on the Company Selected Statistical Information.

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*Peso-denominated Assets and Liabilities.* Interest rates in Chile tend to reflect the rate of inflation during the relevant period and expectations regarding future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to the inflation rate varies. See *Interest Rates*. We maintain a substantial amount of non-interest bearing, peso-denominated current account and other demand deposits. The ratio of such deposits to average interest bearing peso-denominated liabilities was 52% during 2006, 51% during 2007 and 50% during 2008. Because a large part of such deposits are not sensitive to inflation, even a slight decline in the rate of inflation may adversely affect our net interest margin on assets funded with such deposits and even a slight increase in the rate of inflation may increase the net interest margin on such assets. See *Item 4. Information on the Company Selected Statistical Information Interest Earning Assets and Net Interest Margin*.

***Interest Rates***

Interest rates earned and paid on our assets and liabilities reflect in part inflation and expectations regarding future inflation, shifts in short-term interest rates related to the Central Bank's monetary policies and movements in long-term real rates. The Central Bank manages short-term interest rates based on its objectives of balancing low inflation and economic growth. Accordingly, with the inflation increase in 2008, the Central Bank raised its reference interest rate five times, resulting in a final rate of 8.25% by the end of 2008. On the other hand, long-term rates showed a slight increase in 2008.

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

The average real annual short-term interest rate based on the rate paid by Chilean financial institutions for 90- to 360-day Chilean peso-denominated deposits was 2.83% in 2006, 2.20% in 2007 and 2.23% in 2008. The average annual real long-term interest rate based on the Central Bank's ten-year duration Chilean peso-denominated bonds was 2.98% in 2006, 2.90% in 2007 and 3.24% in 2008.

***Foreign Currency Exchange Rates***

A significant portion of our assets and liabilities are denominated in foreign currencies, principally U.S. dollars, and we have historically maintained and may continue to maintain gaps between the balances of such assets and liabilities. The gap between foreign currency denominated assets and foreign currency denominated liabilities was a net asset position of Ch\$21,833 million at December 31, 2006, Ch\$8,317 at December 31, 2007 and Ch\$51,114 million at December 31, 2008. See Note 26 to our audited consolidated financial statements. This gap includes assets and liabilities denominated in foreign currencies and assets and liabilities denominated in Chilean pesos that contain repayment terms linked to changes in foreign currency exchange rates. Because foreign currency denominated assets and liabilities, as well as interest earned or paid on such assets and liabilities and gains (losses) realized upon the sale of such assets, are translated into pesos in preparing our audited consolidated financial statements, our reported income is affected by changes in the value of the peso with respect to foreign currencies, primarily the U.S. dollar. Adjustments to U.S. dollar-indexed assets are reflected as adjustments in net interest earnings and offset results in the foreign exchange position. The exchange rate variation over capital and reserves of our foreign branches, which were sold in January 2008, is adjusted against equity rather than against net income according to local accounting rules.

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### **Critical Accounting Policies**

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

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

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

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

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

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

On January 1, 2004, in accordance with Circular No. 3,246 issued by the Chilean Superintendency of Banks, we adopted a new methodology to determine our loan loss allowances. This new regulation did not adversely affect our financial position or results of operations. A detailed description of this accounting policy is discussed in Item 4. Information on the Company Regulation and Supervision Allowances for Loan Losses and in Notes 1 and 34 to our audited consolidated financial statements.

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

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

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Statement of Financial Accounting Standards (SFAS) 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, SFAS 157 has established a hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that Banco de Chile has the ability to access.

Level 2: Observable inputs other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

Level 3: Prices or valuation techniques requiring inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would make in pricing the asset or liability.

Banco de Chile uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. This is done primarily for government and private securities classified as available for sale or trading account, forward transactions pending settlement and derivatives.

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

Chilean GAAP requires that financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method prescribes that the historical cost of all non-monetary accounts be restated for general price-level changes between the date of origin of each item and the year-end. A bank's net monetary asset position is determined by subtracting its net non-monetary liabilities from its non-monetary assets. 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 capital and reserves from the price-level restatement adjustment of non-monetary assets. The inflation rate used for purposes of such adjustments is the change in the Consumer Price Index during the 12 months ended November 30 of the reported year. The change in the Consumer Price Index used for price-level restatement purposes was 2.1% in 2006, 7.4% in 2007 and 8.9% in 2008. See Note 1(b) to our audited consolidated financial statements. The actual change in the Consumer Price Index was 2.6% in the year ended December 31, 2006, 7.8% in the year ended December 31, 2007 and 7.1% in the year ended December 31, 2008.

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, 2007 and 2008 audited consolidated financial statements and their accompanying notes have been presented in constant Chilean pesos as of December 31, 2008.

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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.

As of January 1, 2009, price-level restatement is no longer applicable. See Item 4: Information on the Company Regulation and Supervision.

### ***Goodwill***

Under U.S. GAAP, we have significant intangible assets related to goodwill. We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other acquired intangibles, at fair value as required by SFAS No. 141, published by FASB. These include amounts pushed down from our parent Quiñenco S.A. Under SFAS No. 142, goodwill must be allocated to reporting units and tested for impairment. On December 31, 2008, goodwill has been allocated according to the structure of our business segments in 2008.

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 major business segments. The first part of the test is a comparison at the reporting unit level of the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value is less than the carrying value, then the second part of the test is conducted to measure the amount of potential goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared to the carrying amount of goodwill recorded in our financial records. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, then we would recognize an impairment loss in the amount of the difference, which would be recorded as a charge against net income.

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

We did not have any goodwill impairment charges in 2006, 2007 and 2008.

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 34 to our audited consolidated financial statements.

### **Changes in Accounting Principles**

On January 1, 2004, new principles for determining loan loss allowances became effective. The application of these new principles did not have a material effect on our financial condition or results of operations.

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In accordance with Circular No. 3,345 issued by the Chilean Superintendency of Banks, we adopted new accounting criteria for the measurement, classification and recording of trading and investment securities, derivative instruments, hedge accounting and asset derecognition beginning on June 30, 2006. The Circular required retroactive application as of December 31, 2005, recognizing the cumulative effect in equity during 2006. This resulted in a credit of Ch\$960 million (in historical pesos) to a Reserves account within equity in 2006. On other hand, for the investment securities and derivatives portfolio held during 2006, the application of this new standard generated an income of Ch\$910 million, which is included in the line item Gains (losses) from trading and brokerage activities.

The Chilean Superintendency of Banks, through its Circular No. 3,410 dated November 9, 2007, subsequently supplemented by Circular No. 3,443 dated August 21, 2008, and introduced the new Compendium of Accounting Standards that banks must apply as a result of the IFRS convergence project developed by the Chilean Superintendency of Banks. The main impact arising out of these new accounting criteria are described below:

### ***Applicable accounting changes during 2008***

In accordance with Chapters B-4 and E of the above mentioned Compendium of Accounting Standards, the Bank recorded a liability for an amount of Ch\$190,698 million under Provisions as of December 31, 2008 related to the minimum dividends payment, reflecting a corresponding equity reduction for the same amount under Retained earnings. Until 2007, dividend obligations were recorded when declared by a Shareholders Meeting. This change did not generate effects on income.

### ***New format for the presentation of financial statements applicable starting in 2008***

Chapter C-3 of the Compendium of Accounting Standards established the new format for the presentation of annual financial statements. Chapter E requires that its application begin in 2008. The application of this new format has only affected the presentation of the 2008 financial statements, and has not had an effect on the accounting criteria applied by the Bank. For comparative purposes, financial information from 2004 through 2007 has been modified in accordance with the new presentation format and, therefore, the financial statements for the period 2004-2007 that are presented in this annual report differ, in terms of their presentation, from those reported in prior years for such period. This new presentation format has also been used with respect to the 2008 financial information contained in this annual report.

### ***Standards that will be applicable starting in 2009***

The Compendium of Accounting Standards establishes that starting January 1, 2009, banks must adopt the new accounting criteria established by the Chilean Superintendency of Banks, and apply IFRS for those matters not addressed by the Compendium. The changes in accounting criteria relate, among other things, to the following matters:

elimination of the price-level restatement;

option to revalue fixed assets as of the date of first time adoption;

accrual of loan interest during past due date;

accrual of loan interest at the effective rate; and

changes and incorporation of additional disclosures in notes to the financial statements.

The application of these new accounting criteria resulted in adjustments to the Bank's equity accounts as of January 1, 2009, and will also affect the determination of income in future years. For comparison purposes with the financial statements that will be presented in 2009, the Bank must present financial statements for 2008 in accordance with the new accounting criteria, which will differ from those presented herein. See Item 4 Regulation and Supervision Convergence to IFRS



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Subsequent to the merger between Banco de Chile and Citibank Chile, which was effective on January 1, 2008, the Bank began to reconcile the criteria maintained by each bank for the classification of financial instruments, according to the different categories defined by the current applicable regulation. As a consequence of the reconciliation, on September 30, 2008, we reclassified certain financial instruments from Trading Securities to Available for Sale Instruments by an amount equivalent to Ch\$244.827 million (historical pesos).

During the period ending December 31, 2008, there have not been other accounting changes that could significantly affect the consolidated financial statements presented in this annual report.

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

Chilean GAAP varies in certain important aspects from U.S. GAAP, including some of the methods that are used to measure the amounts shown in the audited consolidated financial statements, additional disclosures required by U.S. GAAP and the accounting treatment of the merger with Banco de A. Edwards and Citibank Chile. Those differences, as well as other significant differences between Chilean GAAP and U.S. GAAP, are described in greater detail in Note 34 to our audited consolidated financial statements.

### **Results of Operations for the Years Ended December 31, 2006, 2007 and 2008**

The following section discusses the results of operations for the years ended December 31, 2006, 2007 and 2008. To the extent that it is available and is useful in analyzing our results, we have included information broken down by the business segments we use in internal reporting. We also present our results on a consolidated basis.

#### ***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, 2006, 2007 and 2008:

	Year Ended December 31,			% Increase (Decrease)	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
Net interest revenue	Ch\$ 412,080	Ch\$ 513,767	Ch\$ 778,539	24.7%	51.5%
Net fees and commissions	169,665	187,773	215,864	10.7	15.0
Other income (loss), net	116,316	83,140	103,077	(28.5)	24.0
Provisions for loan losses	(42,973)	(56,678)	(138,593)	31.9	144.5
Operating expenses	(389,780)	(391,280)	(573,848)	0.4	46.7
Income attributable to affiliates	1,206	(2,229)	2,987		
Loss from price-level restatement	(9,972)	(41,325)	(77,789)	314.4	88.2
Income before income taxes	256,542	293,168	310,237	14.3	5.8
Income taxes	(28,182)	(29,316)	(37,810)	4.0	29.0
Net income	Ch\$ 228,360	Ch\$ 263,852	Ch\$ 272,427	15.5%	3.2%

2007 and 2008. The 3.2% increase in net income in 2008 as compared to 2007 was primarily attributable to a 51.5% increase in net interest revenue, fueled by (i) an 18.4% growth of the loan portfolio as a consequence of both the incorporation of Citibank Chile's business as a result of the merger and organic expansion, (ii) higher income due to the proactive management of UF/Ch\$ positions, (iii) higher contribution from demand deposits in an environment of higher interest rates, (iv) extraordinary income arising from both the sale of foreign branches during 2008 and the sale of stock of Visa Inc. as a result of its initial public offering on the New York Stock Exchange and, to a lesser extent, (v) an increase in net fees and commissions.

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These positive factors were partially offset by a 144.5% increase in provisions for loan losses and a 46.7% increase in our operating expenses, both of which also reflected the impact of the merger with Citibank Chile. In addition, provisions for loan losses also reflected the less dynamic macroeconomic scenario that has prevailed since the last quarter of 2007.

*2006 and 2007.* The 15.5% increase in net income in 2007 as compared to 2006 was primarily attributable to a 24.7% increase in net interest revenue, fueled by a 13.6% growth of the loan portfolio and higher earnings from assets funded by demand deposits as a consequence of higher nominal interest rates and, to a lesser extent, an increase in net fees and commissions. These positive factors were partially offset by a 31.9% increase in provisions for loan losses and by a 0.4% increase in our operating expenses. Higher net income mainly reflected our focus on expanding our customer base and improving our service quality.

***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, 2006, 2007 and 2008. 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)	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
Interest revenue	Ch\$ 845,641	Ch\$ 1,204,230	Ch\$ 1,663,643	42.4%	38.1%
Interest expense	(433,561)	(690,463)	(885,104)	59.3	28.2
Net interest revenue	Ch\$ 412,080	Ch\$ 513,767	Ch\$ 778,539	24.7%	51.5%
Net interest margin <sup>(1)</sup>	3.48%	3.97%	5.12%		

(1) Net interest revenue divided by average interest earning assets. The average balances for interest earning assets, including interest readjustments, have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries. 2007 and 2008. Net interest revenue increased by 51.5% from 2007 to 2008, primarily as a result of a 17.5% growth in average interest earning assets and, to a lesser extent, due to a net interest margin increase of 115 basis points from 3.97% in 2007 to 5.12% in 2008. The increase in net interest margin was largely a result of the following:

A positive result associated with the management of UF/Ch\$ gap positions coupled with an increase in the inflation rate, measured by the variation of the UF (which was 9.3% in 2008 as compared to 7.0% in 2007), implying that during 2008 we earned higher interest income on the portion of interest earning assets financed by non-interest bearing liabilities;

A higher contribution from demand deposits as a result of the increase in nominal interest rates (the average short-term interest rate was 7.24% in 2008 as compared to 5.47% in 2007);

A more favorable funding structure mainly as a consequence of the merger with Citibank Chile, which implied a higher proportion of checking accounts among the Bank's liabilities. Accordingly, the ratio of interest-bearing liabilities to interest-earning assets improved to 76.9% in 2008 from 78.8% in 2007; and

An increase in average loan spreads as a result of higher credit risk as a consequence of a less dynamic economic scenario. 2006 and 2007. Net interest revenue increased by 24.7% from 2006 to 2007, primarily due to a 8.4% growth in average interest earning assets and, to a lesser extent, due to a net interest margin increase of 49 basis points from 3.48% in 2006 to 3.97% in 2007. The increase in net interest margin was largely a result of the following:

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

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

A favorable funding structure as the ratio of interest-bearing liabilities to interest-earning assets improved to 78.8% in 2007 from 79.5% in 2006.

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

**Interest Revenue**

The following table sets forth information regarding our interest revenue and average interest earning assets for the years ended December 31, 2006, 2007 and 2008:

	Year Ended December 31,			% Increase (Decrease)	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
Interest revenue	Ch\$ 845,641	Ch\$ 1,204,230	Ch\$ 1,663,643	42.4%	38.1%
Average interest earning assets:					
Commercial loans	Ch\$ 6,420,895	Ch\$ 7,121,104	Ch\$ 8,821,485	10.9	23.9
Residential Mortgage Loans	1,680,655	1,958,547	2,156,801	16.5	10.1
Consumer Loans	1,215,355	1,356,270	1,828,633	11.6	34.8
Total Loans	Ch\$ 9,316,905	Ch\$ 10,435,921	Ch\$ 12,806,919	12.0	22.7
Cash and due from banks	981,417	811,086	803,191	(17.4)	(1.0)
Repurchase agreement	52,082	40,895	74,675	(21.5)	82.6
Financial investments	1,462,382	1,567,518	1,393,650	7.2	(11.1)
Loans and Advance to Banks	42,005	96,019	141,955	128.6	47.8
Total	Ch\$ 11,854,791	Ch\$ 12,951,439	Ch\$ 15,220,390	9.3%	17.5%
Average rates earned on total interest earning assets: <sup>(1)</sup>					
Average nominal rates	7.64%	9.83%	11.22%		
Average real rates	5.71%	0.72%	7.27%		

(1) 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.

2007 and 2008. Interest revenue increased by 38.1% from 2007 to 2008, primarily as a result of a 17.5% increase in average interest earning assets and, to a lesser extent, an increase in average nominal interest rates earned from 9.30% in 2007 to 10.93% in 2008. The increase in average interest earning assets was the result of both the merger with Citibank Chile and the organic growth of our loan portfolio. The increase in average nominal interest rates was mainly the result of an increase in the Central Bank's nominal reference rates (from an average of 5.47% in 2007 to 7.24% in 2008). In addition, the increase in the average real rate earned on interest earning assets from 0.72% in 2007 to 7.27% in 2008 reflected the large increase in the foreign exchange rate during that period.

2006 and 2007. Interest revenue increased by 42.4% from 2006 to 2007, primarily as a result of an increase in the average nominal interest rates earned from 7.04% in 2006 to 9.25% in 2007 and, to a lesser extent, a 8.4% growth in average interest earning assets which was driven by a 12.0% increase in average loans. The increase in average nominal interest rates was mainly the result of an increase in the inflation rate (from 2.6% in 2006 to 7.8% in 2007) and, to a lesser extent, to increases of the Central Bank's nominal reference rates (from an average of 5.02% in 2006 to 5.31% in 2007). In addition, the decrease in the average real rate earned on interest earning assets from 5.71% in 2006 to 0.72% in 2007 can be explained by the relatively large decrease in the foreign currency rate during that period.

**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, 2006, 2007 and 2008:

	Year ended December 31,			% Increase (Decrease)	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
Interest expense	Ch\$ 433,561	Ch\$ 690,463	Ch\$ 885,104	59.3%	28.2%
Average interest-bearing liabilities:					
Saving accounts and time deposits <sup>(1)</sup>	Ch\$ 6,128,719	Ch\$ 6,692,644	Ch\$ 7,607,632	9.2	13.7
Securities under agreements to repurchase	318,064	340,891	462,127	7.2	35.6
Borrowings from financial institutions	896,743	927,746	1,424,552	3.5	53.5
Debt Issued	1,445,736	1,614,333	1,731,808	11.7	7.3
Other Financial Obligations	53,446	67,390	95,202	26.1	41.3
Total	Ch\$ 8,842,708	Ch\$ 9,643,004	Ch\$ 11,321,321	9.1%	17.4%
Average rates paid on total interest bearing liabilities <sup>(2)</sup> :					
Average nominal rates	4.90%	7.16%	7.82%		
Average real rates	3.10%	(1.92%)	6.21%		
Average (Chilean peso-denominated) non-interest bearing current account and demand deposits	2,366,370	2,475,365	2,730,033	4.6%	10.3%

(1) Includes interest-earning demand deposits.

(2) 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.

2007 and 2008. Interest expense increased by 28.2% from 2007 to 2008, primarily as a result of a 17.4% increase in average interest-bearing liabilities and, to a lesser extent, to an increase in average nominal interest rates paid, from 7.16% in 2007 to 7.82% in 2008. The increase in average interest-bearing liabilities was primarily attributable to a 13.7% increase in savings accounts and time deposits and a 53.5% increase in borrowings from financial institutions. The average nominal rates increased primarily as a result of the Central Bank's higher monetary policy rates during 2008.

2006 and 2007. Interest expense increased by 59.3% from 2006 to 2007, primarily as a result of an increase in average nominal interest rates paid, from 4.90% in 2006 to 7.16% in 2007 and also due to a 9.1% increase in average interest-bearing liabilities. The increase in the average nominal interest rate paid was primarily attributable to the higher inflation rate and an increase in the Central Bank's monetary policy rate. The increase in average interest-bearing liabilities was mainly the result of a 9.2% increase in savings accounts and time deposits and a 11.7% increase in the issuance of debt (principally related to bonds and subordinated bonds).

**Table of Contents****Net Fees and Commissions**

The following table sets forth certain components of our fees and commissions (net of fees paid to third parties that provide support for those services, principally fees relating to services of pre-evaluations credit and receipts and collection services provided to us) for the years ended December 31, 2006, 2007 and 2008:

	Year Ended December 31,			% Increase (Decrease)	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
Insurance	Ch\$ 28,337	Ch\$ 32,300	Ch\$ 46,668	14.0%	44.5%
Mutual funds	27,075	33,335	41,467	23.1	24.4
Checking accounts and overdrafts	28,155	29,363	34,433	4.3	17.3
Credit cards	15,973	16,926	22,170	6.0	31.0
Sight accounts and ATMs	17,242	20,287	20,502	17.7	1.1
Collection of over-due loans	11,559	11,853	15,046	2.5	26.9
Cash management services	12,599	12,381	12,328	(1.7)	(0.4)
Stock brokerage	12,282	17,232	8,838	40.3	(48.7)
Letters of credit, guarantees, collateral and other contingent loans	10,262	9,950	8,209	(3.0)	(17.5)
Credit lines	9,646	8,494	8,132	(11.9)	(4.3)
Financial advisory services	3,326	1,319	6,773	(60.3)	413.5
Foreign trade and currency exchange	4,687	3,301	4,310	(29.6)	30.6
Custody and trust services	2,264	2,428	5,221	7.2	115.0
Factoring	1,017	1,131	1,695	11.2	49.9
Collection services	2,274	2,047	1,548	(10.0)	(24.4)
Credits	2,768	1,838	806	(33.6)	(56.1)
Teller services expenses	(5,387)	(5,742)	(5,268)	6.6	(8.3)
Credit pre-evaluation services	(17,054)	(17,249)	(19,945)	1.1	15.6
Other	2,640	6,579	2,931	149.2	(55.4)
<b>Total</b>	<b>Ch\$ 169,665</b>	<b>Ch\$ 187,773</b>	<b>Ch\$ 215,864</b>	<b>10.7%</b>	<b>15.0%</b>

*2007 and 2008.* Net fees and commissions increased by 15.0% from 2007 to 2008, primarily as a result of an increase in fees generated by insurance, mutual funds, credit cards, financial advisory services and checking accounts and overdrafts, all of which increased as a result of a significant increase in our customer base and network expansion due to the merger with Citibank Chile and our long-standing efforts to cross-sell the Bank's products. This increase was partially offset by lower fees posted by our stock brokerage subsidiary and higher credit pre-evaluation services expenses.

*2006 and 2007.* Net fees and commissions increased by 10.7% from 2006 to 2007. This annual increase in fees was primarily a result of an increase in fees generated by our mutual funds and stock brokerage businesses, as both businesses continued to deliver a diverse range of new services and products to address customer needs. To a lesser extent, higher fee income was also related to insurance and sight accounts and ATMs, largely as a result of an increase in the client base. These factors more than offset the lower fees generated by our financial advisory and foreign trade and currency exchange businesses.

**Other Income (Loss), Net**

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



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The following table sets forth certain components of our other income (loss), net, in the years ended December 31, 2006, 2007 and 2008:

	Year Ended December 31,			% Increase (Decrease)	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
Gains (losses) from trading and brokerage activities					
Interest accrued on trading securities	Ch\$ 62,854	Ch\$ 73,120	Ch\$ 49,011	16.3%	(33.0%)
Gains (losses) on sales and mark to market	8,589	(3,306)	(6,748)		104.1
Gains (losses) on derivatives contracts	28,008	(31,819)	343,882		
Gains from sales of loans	(304)	1,447	1,558		7.7
Total gains (losses) from trading and brokerage activities	Ch\$ 99,147	Ch\$ 39,442	Ch\$ 387,703	(60.2%)	883.0%
Foreign exchange transactions, net	Ch\$ (12,599)	Ch\$ 19,756	Ch\$ (353,012)		
Other operating income, net	Ch\$ 29,768	Ch\$ 23,942	Ch\$ 68,386	(19.6%)	185.6%
<b>Total</b>	<b>Ch\$ 116,316</b>	<b>Ch\$ 83,140</b>	<b>Ch\$ 103,077</b>	<b>(28.5%)</b>	<b>24.0%</b>

2007 and 2008. Other income (loss), net, increased from Ch\$83,140 million in 2007 to Ch\$103,077 million in 2008, largely as a result of a 185.6% increase in other operating income. The increase in other operating income was mainly due to non-recurring income arising out of both the sale of foreign branches (which amounted to Ch\$38,459 million) and the sale of stock of Visa Inc. as a result of Visa Inc.'s initial public offering (which resulted in earnings of approximately Ch\$10,352 million). The increase in gains from trading and brokerage activities was mainly due to a significant increase in gains on derivatives contracts, as a result of a higher net asset position in U.S.\$/Ch\$ forward contracts in an environment of rising exchange rates. However, this effect was more than offset by higher losses in foreign exchange transactions, which also reflect the impact of the Bank's higher liabilities position in U.S. dollars.

2006 and 2007. Other income (loss), net, decreased from Ch\$116,316 million in 2006 to Ch\$83,140 million in 2007, primarily as a result of a 60.2% decrease in gains (losses) from trading and brokerage activities and, to a lesser extent, of a decrease in the amounts recovered from assets received in lieu of payments which were previously charged-off (this decrease was reflected in the other operating income line). The decrease in gains (losses) from trading and brokerage activities was a result of (i) losses in the value of the Bank's securities portfolio related to Latin American countries as a consequence of the global financial instability during the second half of 2007, (ii) losses resulting from securities issued by Chilean companies booked in the Bank's foreign branches due to an increase of 68 basis points in Chile's country risk index during the second half of 2007, and (iii) losses in derivatives contracts due to meager results obtained in UF/\$ forwards transactions, primarily as a result of a higher inflation rate, which was partially offset by higher interest income earned (which was reflected in the interest revenue line) as well as a higher profit arising from foreign exchange transactions.

**Provisions for Loan Losses**

Chilean banks are required to maintain allowances to cover possible credit losses in accordance with regulations issued by the Chilean Superintendency of Banks. For statistical information with respect to our substandard loans and allowances for loan losses, see Item 4. Information on the Company Selected Statistical Information and Note 9 to our audited consolidated financial information. According to regulations of the Chilean Superintendency of Banks applicable to such periods, the amount of provisions charged to income in any period consists of net provisions for possible loan losses. Under Chilean regulations, additional allowances must be registered in the operating expenses line. See Item 4. Information on the Company Regulation and Supervision and Note 9 to our audited consolidated financial statements.

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The following table sets forth information with respect to our provisions and allowances for loan losses and charge-offs for each of the years ended December 31, 2006, 2007 and 2008:

	Year Ended December 31,			% Increase (Decrease)	
	2006	2007	2008	2006/2007	2007/2008
(in millions of constant Ch\$ as of December 31, 2008, except for percentages)					
<b>Provisions:</b>					
Total provisions for loan losses	Ch\$ 42,973	Ch\$ 56,678	Ch\$ 138,593	31.9%	144.5%
Gross provisions for loan losses	75,839	94,928	178,241	25.2	87.8
Total loan loss recoveries	32,866	38,250	39,648	16.4	3.7
<b>Charge-offs:</b>					
Total charge-offs	70,960	77,933	104,914	9.8	34.6
Net charge-offs	38,094	39,683	65,266	4.2	64.5
<b>Other asset quality data:</b>					
Total loans	Ch\$ 10,146,440	Ch\$ 11,529,160	Ch\$ 13,649,005	13.6	18.4
Consolidated risk index	1.38%	1.27%	1.66%		
Unconsolidated risk index	1.41%	1.28%	1.63%		
Allowances for loan losses	140,288	146,794	227,201	4.6%	54.8%
Allowances for loan losses as a percentage of total loans	1.38%	1.27%	1.66%		

*2007 and 2008.* Our total provisions for loan losses sharply increased by 144.5% from 2007 to 2008, mainly as a result of an 18.4% increase in our loan portfolio as a result of our organic growth and the merger with Citibank Chile, and as a result of a higher level of risk due to lower dynamism in the local and international economy. The ratio of provisions for loan losses to average loans increased to 1.09% in 2008 from 0.54% in 2007. On a consolidated basis, our risk index increased from 1.27% in 2007 to 1.66% in 2008.

*2006 and 2007.* Our provisions for loan losses increased by 31.9% from 2006 to 2007, mainly as a result of an overall loan portfolio expansion and an increase in the level of risk mostly associated with our consumer portfolio. Higher provisions were partially offset by an increase of 16.4% in loan loss recoveries. The ratio of provisions for loan losses to average loans increased to 0.54% in 2007 from 0.45% in 2006. On a consolidated basis, our risk index decreased from 1.38% in 2006 to 1.27% in 2007.

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

The following table sets forth information regarding our operating expenses for the years ended December 31, 2006, 2007 and 2008:

	Year Ended December 31,			% Increase (Decrease)	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
Staff expenses	Ch\$ 182,279	Ch\$ 207,043	Ch\$ 306,040	13.6%	47.8%
Administrative expenses:					
Advertising	19,309	17,510	26,447	(9.3)	51.0
Building maintenance	15,807	16,401	22,453	3.8	36.9
Rentals and insurance	10,744	11,016	18,749	2.5	70.2
Office supplies	6,306	6,035	7,985	(4.3)	32.3
Other expenses	101,483	80,522	102,228	(20.7)	27.0
Total administrative and other expenses	Ch\$ 153,649	Ch\$ 131,484	Ch\$ 177,862	(14.4%)	35.3
Depreciation and amortization	23,119	25,301	35,573	9.4	40.6
Other operating expenses	30,733	27,452	54,373	10.7	98.1
<b>Total</b>	<b>Ch\$ 389,780</b>	<b>Ch\$ 391,280</b>	<b>Ch\$ 573,848</b>	<b>0.4%</b>	<b>46.7%</b>

*2007 and 2008.* Our operating expenses increased by 46.7% from 2007 to 2008, primarily as a result of (i) the incorporation of Citibank Chile's cost base, (ii) higher non-recurring charges (approximately Ch\$44,700 million in 2008) related to the merger and integration with Citibank Chile, (iii) a higher level of business activity as a result of the Bank's organic growth, (iv) higher other operating expenses during the fourth quarter of 2008, mainly related to the establishment of additional loan loss provisions of approximately Ch\$17,000 million, and (v) non-recurring expenses of approximately Ch\$13,500 million related to the collective bargaining agreements entered into by the Bank and some of its subsidiaries.

*2006 and 2007.* Our operating expenses increased by 0.4% from 2006 to 2007. Higher operating expenses resulted from our focus on expanding our business, transactional capabilities and service quality. We recorded an increase in personnel salaries, primarily related to additional employees for new branches and call centers, an increase in communication and technology expenses (including amortization expenses), in order to provide improved productivity and service quality, and larger rental expenses related to the expansion of the Bank's branch network.

In addition, we incurred non-recurring expenses related to the merger with Citibank Chile and the sale of our foreign branches, which amounted to approximately Ch\$3,920 million in 2007. However, the increase in these expenses was partially offset by a decrease in advisory expenses from the foreign branches related to the U.S. compliance requirements.

**Loss from Price-Level Restatement**

Chilean GAAP requires that adjustments be made to non-monetary assets (including fixed assets), liabilities and capital and reserves 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.

*2007 and 2008.* The loss from price-level restatement increased from Ch\$41,325 million in 2007 to Ch\$77,789 million in 2008, primarily as result of the sharp increase in the inflation rate used for adjustment purposes from 7.4% in 2007 to 8.9% in 2008 and, also, due to the increase in net non-monetary liabilities as a result of the capital increase relating to the merger with Citibank Chile and, to a lesser extent, the capital increase carried out in the first semester of 2008.

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*2006 and 2007.* The loss from price-level restatement increased from Ch\$9,972 million in 2006 to Ch\$41,325 million in 2007, primarily as a result of the increase in the inflation rate used for adjustment purposes from 2.1% in 2006 to 7.4% in 2007 and, to a lesser extent, due to the increase in net non-monetary liabilities as a result of the partial capitalization of 2006 net income and a capital increase largely carried out in the third quarter of 2007.

### ***Income Tax***

The statutory corporate income tax rate in Chile was 17% in 2008, 2007 and 2006. We are also permitted under Law No. 19,396 to deduct dividend payments made to SAOS. Consequently, our effective tax rate is significantly lower than the statutory corporate income tax rate because of the deduction of such dividend payments from our taxable income. Additionally, but to a lesser extent, differences in the tax treatment for provisions on individual loans and for charge-offs for past-due loans have an impact on our effective tax rate. Finally, all real estate taxes paid on properties that are leased to customers are deductible from our taxable income.

*2007 and 2008.* In 2008, we recorded a tax expense of Ch\$37,810 million as compared to a tax expense of Ch\$ 29,316 million in 2007. This increase was primarily attributable to a higher effective tax rate, which increased from 10.0% in 2007 to 12.2% in 2008, mainly as a result of the dilution of the SAOS's participation in the Bank as a consequence of the merger with Citibank Chile and, to a lesser extent, the higher income tax base in 2008 as a result of a 5.8% increase in net income before taxes.

*2006 and 2007.* In 2007, we recorded a tax expense of Ch\$29,316 million as compared to a tax expense of Ch\$28,182 million in 2006. This increase was primarily attributable to the higher income tax base in 2007 as a result of a 14.3% increase in net income before taxes.

### ***Business Segments***

We use a business segment-based profitability system to measure financial performance. This system allows us to extract income, balances, interest rate and expense information by client and also allows us to provide information by account officer, branch or business segment. In order to assess income per transaction, the system compares the interest rate agreed upon with the client with our own cost of funds. For various transactions, we use internal cost of funds tables, which are updated daily. From these tables we are able to determine operating costs per transaction or per client and these costs are then allocated to our various business segments. Developed internally, the system has been continuously refined resulting in cost re-allocations. Figures for the period 2004-2007 have been restated in accordance with the new presentation format required by the Chilean Superintendency of Banks. This new presentation format has also been used with respect to the 2008 figures contained in this section.

Our business has been organized into the following segments since 2008:

retail market;

wholesale market;

treasury and money market operations; and

operations through subsidiaries

Prior to our merger with Citibank Chile, we also had an International Banking segment.

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

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

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

the results associated with our gap management (interest rate mismatches) have been fully allocated in the treasury and money market operations segment;

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

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

**Net Income by Business Segment**

The following table sets forth net income by business segment for each of the years ended December 31, 2006, 2007 and 2008. The line item Other includes the effect of conforming internal accounting policies to Chilean GAAP and a number of non-allocated costs, such as depreciation costs, additional provisions and merger-related expenses. For internal reporting purposes, we control and monitor these costs separately and do not include them in the determination of business segment profitability. Also included within Other are specific portions of income such as rental income.

	Year Ended December 31,			% Increase (Decrease)	
	2006	2007	2008	2006/2007	2007/2008
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
Retail banking	Ch\$ 110,860	Ch\$ 125,569	Ch\$ 157,894	13.3%	25.7%
Wholesale banking	81,217	85,414	128,773	5.2	50.8
International banking	(6,815)	(2,370)		(65.2)	
Treasury and money market operations	40,898	73,839	108,664	80.5	47.2
Subsidiaries	28,993	31,140	26,335	7.4	(15.4)
Other	(26,793)	(49,740)	(149,239)	85.7	200.0
Net income	Ch\$ 228,360	Ch\$ 263,852	Ch\$ 272,427	15.5%	3.3%

*Retail Banking. 2007 and 2008.* The 25.7% increase in the retail banking business segment's net income in 2008 was primarily attributable to a 35.5% increase in operating revenues, from Ch\$403,951 million in 2007 to Ch\$547,182 million in 2008. This increase was fueled by a 13.4% expansion in the loan portfolio, higher earnings from demand deposits and higher fee income. These factors were partially offset by an 80.7% increase in provisions for loan losses, mainly related to the consumer loan portfolio and, to a lesser extent, to commercial loans to small companies and by a 24.9% increase in operating expenses as a consequence of the merger with Citibank Chile.



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*Retail Banking. 2006 and 2007.* The 13.3% increase in the retail banking business segment's net income in 2007 was primarily attributable to a 10.0% increase in operating revenues, from Ch\$367,223 million in 2006 to Ch\$403,951 million in 2007. This increase was mainly due to a 12.3% expansion in the loan portfolio, higher earnings from demand deposits and, to a lesser extent, higher fee income. These factors were partially offset by a 21.4% increase in provisions for loan losses mainly related to the consumer loan portfolio and, to a lesser extent, by higher operating expenses.

*Wholesale Banking. 2007 and 2008.* The 50.8% increase in the wholesale business segment's net income in 2008 was mainly attributable to a 57.3% increase in operating revenues, from Ch\$186,222 million in 2007 to Ch\$293,016 million in 2008, primarily as a result of a 24.0% expansion in the loan portfolio, higher earnings from demand deposits and higher fee income. These factors were partially offset by higher provisions for loan losses, part of which were related to the fishing sector as a result of the outbreak of an infectious salmon virus that caused a substantial reduction in the exports of salmon.

*Wholesale Banking. 2006 and 2007.* The 5.2% increase in the wholesale business segment's net income in 2007 was mainly attributable to a 15.1% increase in operating revenues, from Ch\$161,787 million in 2006 to Ch\$186,222 million in 2007, primarily as a consequence of a 20.0% expansion in loans and, to a lesser extent, a 6.3% decrease in operating expenses.

*International Banking. 2007 and 2008.* Banco de Chile sold its US branches (Miami and New York) to Citigroup as part of the merger with Citibank Chile.

*International Banking. 2006 and 2007.* The international banking business segment recorded a loss before taxes of Ch\$2,370 million during 2007 as a consequence of mark-to-market losses in the securities portfolio of our foreign branches due to the global financial turbulence over the second half of 2007. In addition, during 2007, foreign branches registered non-recurring operating expenses related to the merger agreement with Citigroup, which led to the closing of these operations in 2008.

*Treasury and Money Market Operations. 2007 and 2008.* The treasury and money market operations business segment's net income increased to Ch\$108,664 million in 2008 from Ch\$73,839 million in 2007 primarily as a result of higher interest income earned on the portion of UF denominated assets financed by nominal Chilean pesos denominated liabilities. This was due to an increase in the inflation rate and higher sales of forwards and derivative contracts to clients.

*Treasury and Money Market Operations. 2006 and 2007.* The treasury and money market operations business segment's net income increased to Ch\$73,839 million in 2007, from Ch\$40,898 million in 2006 largely as a consequence of the sharp increase in the inflation rate, which resulted in higher interest income earned on the portion of UF denominated assets financed by non-UF denominated liabilities.

*Operations through Subsidiaries. 2007 and 2008.* The 15.4% decrease in net income from our subsidiaries in 2008 compared to 2007 was primarily attributable to a lower net income of our Mutual Fund subsidiary as a result of a rebalancing of our customers' mutual funds portfolios from variable to fixed income structures, and a lower net income from our Factoring subsidiary as a result of a higher inflation rate during 2008, which affected the liability net position in UF of the Factoring subsidiary. This decrease offset the higher pre-tax income of our Financial Advisory, Insurance Brokerage and Security Brokerage subsidiaries.

*Operations through Subsidiaries. 2006 and 2007.* The 7.4% increase in net income from our subsidiaries in 2007 compared to 2006 was primarily attributable to higher fee income recorded by our Mutual Fund, Securities Brokerage and Insurance Brokerage subsidiaries. The positive performance of these subsidiaries offset the results obtained by our Financial Advisory subsidiary, which generated fewer transactions in 2007, and our Factoring subsidiary, which had a lower operating income as a consequence of a higher inflation rate as most of its Chilean peso-denominated loans were financed with funds denominated in UF.

**Table of Contents****Chilean and U.S. GAAP Reconciliation**

We prepare our audited consolidated financial statements in accordance with Chilean GAAP, which differs in certain significant aspects from U.S. GAAP. See Note 34 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 equity and a discussion of new accounting rules under U.S. GAAP. The following table sets forth net income and equity for the years ended December 31, 2006, 2007 and 2008 under Chilean GAAP and U.S. GAAP:

	Year Ended December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
Net income (Chilean GAAP)	Ch\$ 228,360	Ch\$ 263,852	Ch\$ 272,427
Net income (U.S. GAAP)	202,147	251,575	216,700
Equity (Chilean GAAP) <sup>(1)</sup>	976,172	1,144,967	1,297,735
Equity (U.S. GAAP)	Ch\$ 1,726,797	Ch\$ 1,872,668	Ch\$ 2,128,499

(1) Total equity excluding minority interest.

Significant differences exist between our net income and equity under Chilean GAAP as presented in Item 5. Operating and Financial Review and Prospects, and our net income and equity under U.S. GAAP as presented in Note 34 to our audited consolidated financial statements.

Some differences are as follows:

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

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

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In the same context, under Chilean GAAP the merger of Banco de Chile and Citibank Chile was accounted for as a pooling with no retroactive restatement of historical financial statements, while under U.S. GAAP the merger of the two banks was accounted for as a merger of entities under common control, as L.Q. Inversiones Financieras has controlled both banks since January 1, 2008. In this case, we were not required to restate our U.S. GAAP historical financial statements due the fact that common control was effective beginning on January 1, 2008.

Under U.S. GAAP, when accounting for a merger of entities under common control, the book value 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. The same treatment applies with respect to the merger between Banco de Chile and Citibank Chile, where under local accounting principles the merger was recognized at book value and the goodwill and other intangibles were recognized at fair value in LQIF S.A. Pursuant to U.S. GAAP, these intangibles must be pushed down to the merged entity.

As there is no analogous accounting treatment under Chilean GAAP, there is a considerable difference in the asset and liability bases under each body of accounting principles.

Under Chilean GAAP, allowances for loan losses are calculated according to specific guidelines set by the Chilean Superintendency of Banks. Under U.S. GAAP, allowances for loan losses should be in amounts adequate to cover inherent losses in the loan portfolio at the respective balance sheet dates. If we had applied U.S. GAAP, our net income would have decreased by Ch\$2,810 million in 2007 and increased by Ch\$26,355 million in 2008, and equity would have increased by Ch\$30,219 million in 2007 and increased by Ch\$56,574 million in 2008.

Under Chilean GAAP, until December 31, 2005, forward contracts were recorded at the exchange rate in force at the close of each month and initial differences generated by this type of operations were recognized as deferred assets or liabilities and amortized over the term of the related contract. All other derivative instruments were reported at their market value.

Beginning in 2006, as a result of the adoption of Circular N°3,345, under Chilean GAAP all financial derivative contracts, which include foreign currency and UF forwards, interest rate forwards, currency and interest rate swaps, currency and interest rate options and other financial derivative instruments, are recorded in the balance sheet at cost (including transaction costs) at inception and subsequently measured at their fair value. Derivative contracts are reported as an asset when their fair value is positive and as a liability when negative under the line item Derivative instruments.

Under U.S. GAAP, all derivative instruments are recorded in the balance sheet at fair value. The standards also require formal documentation procedures for hedging relationships and effectiveness testing when hedge accounting is to be applied. If the derivative instrument does not qualify as a hedge, changes in fair value are reported in earnings when they occur. If the derivative instrument qualifies as a hedge, the accounting treatment varies based on the type of risk being hedged.

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Additionally, until 2005, Chilean accounting rules did not consider the existence of embedded derivatives and, therefore, such derivatives were not reflected in the financial statements. Beginning 2006, certain derivatives embedded in other financial instruments are treated as separate derivatives when their risk and characteristics are not closely related to those of the main contract and such derivatives are not recorded at their fair value with their unrealized gains and losses included in income. Circular N°3,345 did not include service-type contracts when evaluating for embedded derivatives. For U.S. GAAP purposes, we separately measure embedded derivatives included in certain contracts as freestanding derivative instruments at their estimated fair values, recognizing changes in earnings when they occur.

These differences are explained in greater detail in Note 34 to our audited consolidated financial statements.

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**LIQUIDITY AND CAPITAL RESOURCES**

**Overview**

Liquidity risk is technically categorized into two types: trading liquidity risk and funding liquidity risk. Trading liquidity risk deals with the inability to defease cash positions (bonds, loans, etc.) or offset price risks generated by derivatives transactions; Funding liquidity risk is related to the inability of raising funds. Both lead to potentially adverse scenarios that might make the bank unable to meet its payment obligations and potential payment obligations as and when they become due.

These two risks are jointly managed but by using different tools.

Holding a minimum stake of debt instruments with deep secondary markets ensures trading liquidity. Central bank and government instruments show these characteristics; short-term bank s time deposits do as well. These kinds of instruments are held in our trading portfolio and some portion of the AFS portfolio liquid instruments. In addition, mortgage bonds issued by banks resident in Chile and corporate bonds are also part of the AFS portfolio. Even though mortgage and corporate bonds show much less trading liquidity than other instruments, the former may be sold to the Central Bank under repurchase agreements. Government instruments and short-term bank time deposits are also permitted to be sold to the Central Bank under repurchase agreements.

Having diversified funding sources ensures funding liquidity. Diversification is ensured through establishing triggers that monitor concentrations by funding sources, by maturity, by currency, etc. The aggregation of significant fund providers by currency is monitored as a percentage of our third party liabilities; Concentration triggers by maturity date are also in place. Cross-currency funding is also watched in order to avoid the inability of converting Chilean Pesos back into U.S. dollars due to an absence of trading liquidity in the Foreign Exchange market.

Given our internal metrics and policies, we believe that our working capital is sufficient to meet our present needs. In addition to our own metrics in place to monitor liquidity, the local Central Bank and the Superintendency of Banks have established regulations regarding liquidity, which include: minimum reserve requirements for deposits, minimum technical reserve requirements and maximum expected outflow for the coming 30 and 90 days.

The Central Bank has established a minimum reserve of 9.0% for demand deposits and 3.6% for time deposits. The reserve requirement must be met separately by currency.

In addition, we are subject to a technical requirement applicable to all banks residing in Chile. The daily balance of deposits payable on demand, net of clearing, may not exceed 2.5 times the amount of the bank s effective equity. Deposits payable on demand include:

Deposits in checking accounts;

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

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

Other deposits unconditionally payable immediately.

Chilean regulations also require that the expected outflow within the coming 30 days may not exceed the amount of bank equity and the expected outflow within the coming 90 days may not exceed two times the amount of bank equity. Expected outflow may include behavioral assumptions. Measurements must be made by currency separately.

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Internal and regulatory metrics are prepared daily by specialized areas within the Treasury in charge of overseeing the liquidity. The ALCO also monitors the state of these metrics on a monthly basis.

**Cash Flows**

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

	Year Ended December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
Net cash provided by operating activities	Ch\$ 386,534	Ch\$ 417,124	Ch\$ 256,043

*2007 and 2008.* Cash provided by operating activities decreased to Ch\$256,043 million in 2008 from Ch\$417,124 million in 2007, primarily as a result of an increase in net interest accrued (which is reflected in the line item net changes in interest and fee accruals ) as well as an increase in the fair value of derivatives (which is reflected in the line item other credits which do not represent cash flows ).

*2006 and 2007.* Cash provided by operating activities increased to Ch\$417,124 million in 2007 from Ch\$386,534 million in 2006, primarily as a result of an increase in provisions for loan losses and of a 314.4% increase in loss from price-level restatement.

	Year Ended December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
Net cash used in investing activities	Ch\$ (1,614,292)	Ch\$ (2,184,418)	Ch\$ (1,753,342)

*2007 and 2008.* Cash used in investing activities decreased to Ch\$1,753,342 million in 2008 from Ch\$2,184,418 million in 2007, primarily as a result of an increase in the amount of outstanding transfers in foreign currencies and to the establishment of provisions for minimum dividends.

*2006 and 2007.* Cash used in investing activities increased to Ch\$2,184,418 million in 2007 from Ch\$1,614,292 million in 2006, primarily as a result of a 14.2% increase in the volume of our loan portfolio.

	Year Ended December 31,		
	2006	2007	2008
	(in millions of constant Ch\$ as of December 31, 2008)		
Net cash provided by financing activities	Ch\$ 1,788,415	Ch\$ 1,214,799	Ch\$ 1,674,901

*2007 and 2008.* The increase in cash provided by financing activities from Ch\$1,214,799 million in 2007 to Ch\$1,674,901 million in 2008 was primarily attributable to an increase in other long-term borrowings and, to a lesser extent, an increase in saving accounts and time deposits.

*2006 and 2007.* The decrease in cash provided by financing activities from Ch\$1,788,415 million in 2006 to Ch\$1,214,799 million in 2007 was primarily related to a decrease in saving accounts and time deposits as well as a decrease in short term borrowings.

**Table of Contents****Other Borrowings**

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

	Year Ended December 31, 2007			Year Ended December 31, 2008		
	Long-term	Short-term	Total	Long-term	Short-term	Total
(In millions Of constant Ch\$ as of December 31, 2008)						
Borrowing from financial institution:						
Central Bank Credit lines for renegotiation of loans	Ch\$ 559	Ch\$	Ch\$ 559	Ch\$ 307	Ch\$	Ch\$ 307
Borrowings from domestic financial institutions		80,529	80,529		2,598	2,598
Borrowings from foreign institutions	684,858	167,685	852,543		1,495,644	1,495,644
Debt Issued:						
Bonds	841,580		841,580	994,583		994,583
Subordinated bonds	486,124		486,124	555,576		555,576
Mortgage finance bonds	432,696		432,696	350,429		350,429
Other financial obligations	5,304	63,348	68,652	45,707	48,001	93,708
Total other interest bearing liabilities	Ch\$ 2,451,121	Ch\$ 311,562	Ch\$ 2,762,683	Ch\$ 1,946,602	Ch\$ 1,546,243	Ch\$ 3,492,845

**Central Bank borrowings**

Central Bank borrowings include credit lines for the renegotiation of loans and other Central Bank borrowings. Credit lines were provided by the Central Bank for the renegotiation of mortgage loans due to the need to refinance debts as a result of the economic recession and crisis of the Chilean banking system from 1982 to 1985. The credit lines for the renegotiations of mortgage loans are linked to the UF index and carry an average real annual interest rate of 3.46 % as of December 31, 2008. The maturities of the outstanding amounts are as follows:

	As of December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008)	
Due within 1 year	Ch\$	307
Due after 1 year but within 2 years		
Due after 2 years but within 3 years		
Due after 3 years but within 4 years		
Due after 4 years but within 5 years		
Due after 5 years		
Total long-term (Credit lines for renegotiation of loans)		
Total short-term (Other Central Bank borrowings)	Ch\$	307
Total Central Bank borrowings	Ch\$	307

**Table of Contents*****Borrowings from domestic financial institutions***

Borrowings from domestic financial institutions, which are used to fund our general activities, carried a weighted average annual real interest rate of 4.80% as of December 31, 2008 and had the following outstanding maturities as of December 31, 2008:

	<b>As of December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008)</b>	
Due within 1 year	Ch\$	
Due after 1 year but within 2 years		
Due after 2 years but within 3 years		
Due after 3 years but within 4 years		
Due after 4 years but within 5 years		
Due after 5 years		
<b>Total long-term</b>		
Total short-term	Ch\$	2,598 <sup>(1)</sup>
<b>Total borrowings from domestic financial institutions</b>	Ch\$	2,598

- (1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2008 had remaining maturities of less than one year.

***Borrowings from foreign financial institutions***

We have short-term and long-term borrowings from foreign banks. The outstanding maturities of these borrowings as of December 31, 2008 were as follows:

	<b>As of December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008)</b>	
Due within 1 year	Ch\$	
Due after 1 year but within 2 years		
Due after 2 years but within 3 years		
Due after 3 years but within 4 years		
Due after 4 years but within 5 years		
Due after 5 years		
<b>Total long-term</b>		
Total short-term	Ch\$	1,495,644
<b>Total foreign borrowings</b>	Ch\$	1,495,644

Each of these loans is denominated in foreign currency and is principally used to fund our foreign trade loans and carry an average annual nominal interest rate of 2.76% as of December 31, 2008.

**Table of Contents****Bonds**

Our bonds are linked to the UF Index and carry an average real annual interest rate of 3.50% as of December 31, 2008, 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, 2008 were as follows:

	<b>As of December 31, 2008</b> <b>(in millions of constant Ch\$ as of</b> <b>December 31, 2008)</b>	
Due within 1 year	Ch\$	392,292
Due after 1 year but within 2 years		181,512
Due after 2 years but within 3 years		126,878
Due after 3 years but within 4 years		91,254
Due after 4 years but within 5 years		48,507
Due after 5 years		154,140
<b>Total bonds</b>	<b>Ch\$</b>	<b>994,583</b>

Bonds are linked to the UF Index and carry an average real annual interest rate of 3.33% as of December 31, 2008, with interest and principal payments due semi-annually. The bonds were originally intended to finance loans that had a maturity of greater than one year.

In 2008, Banco de Chile issued ordinary bonds in UF divided into two series, Y and X. The Y series was issued for an amount of Ch\$79,400 million (historic pesos) with a maturity of five years and a coupon rate of 3.3%. The X series was issued for an amount of Ch\$77,810 million (historic pesos) with a maturity of six years and a coupon rate of 2.5%.

**Subordinated bonds**

Our currently outstanding subordinated bonds are linked to the UF index with interest and principal payments due semi-annually. The discount on the issuance of the currently outstanding subordinated bonds is amortized over the life of the bond. As of December 31, 2008, the effective real interest rate was 6.05% 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, 2008 the outstanding maturities of the bonds, which are considered long-term, were as follows:

	<b>As of December 31, 2008</b> <b>(in millions of constant Ch\$ as of</b> <b>December 31, 2008)</b>	
Due within 1 year	Ch\$	31,541
Due after 1 year but within 2 years		25,710
Due after 2 years but within 3 years		28,949
Due after 3 years but within 4 years		28,950
Due after 4 years but within 5 years		20,893
Due after 5 years		419,533
<b>Total subordinated bonds</b>	<b>Ch\$</b>	<b>555,576</b>

During 2008, Banco de Chile issued subordinated bonds with a 25-year maturity term. The subordinated bonds were issued in UF and for an aggregate amount of Ch\$53,916 million (historic pesos). These subordinated bonds accrue interest at an annual rate of 4.5%.

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



**Table of Contents*****Mortgage finance bonds***

Mortgage finance bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and carry a weighted average annual interest rate of 4.21% as of December 31, 2008.

The maturities of outstanding mortgage finance bond amounts as of December 31, 2008 were as follows:

	<b>As of December 31, 2008</b> <b>(in millions of constant Ch\$ as of</b> <b>December 31, 2008)</b>	
Due within 1 year	Ch\$	46,364
Due after 1 year but within 2 years		45,233
Due after 2 years but within 3 years		42,982
Due after 3 years but within 4 years		39,639
Due after 4 years but within 5 years		34,297
Due after 5 years		141,914
<b>Total mortgage finance bonds</b>	<b>Ch\$</b>	<b>350,429</b>

***Other financial obligations***

	<b>As of December 31,</b> <b>2007</b> <b>2008</b> <b>(in millions of constant Ch\$ as of</b> <b>December 31, 2008)</b>	
<b>Other long-term obligations:</b>		
Obligations with Chilean government	Ch\$ 5,304	Ch\$ 45,707
<b>Total other long-term obligations</b>	<b>5,304</b>	<b>45,707</b>
Other short-term obligations	63,348	48,001
<b>Total other obligations</b>	<b>Ch\$ 68,652</b>	<b>Ch\$ 93,708</b>

As of December 31, 2008, other financial obligations had the following maturities:

	<b>As of December 31, 2008</b> <b>(in millions of constant Ch\$ as of</b> <b>December 31, 2008)</b>	
Due within 1 year	Ch\$	1,476
Due after 1 year but within 2 years		2,211
Due after 2 years but within 3 years		10,857
Due after 3 years but within 4 years		2,051
Due after 4 years but within 5 years		1,896
Due after 5 years		27,216
<b>Total long-term</b>	<b>Ch\$</b>	<b>45,707</b>
<b>Total short-term</b>	<b>Ch\$</b>	<b>48,001<sup>(1)</sup></b>

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Total other obligations	Ch\$	93,708
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- (1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2008 had remaining maturities of less than one year.

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

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

**Funding**

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2006, 2007 and 2008, in each case together with the related average nominal interest rates paid thereon:

	Year Ended December 31,								
	2006			2007			2008		
	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, 2008, except for percentages)									
Current accounts and demand deposits	Ch\$ 2,366,370	19.9%		Ch\$ 2,475,365	19.4%		Ch\$ 2,730,033	17.6%	
Savings accounts and time deposits	6,128,719	51.5	5.0%	6,692,644	52.5	7.0%	7,607,632	49.0	7.9%
Borrowings from financial institutions	896,743	7.5	1.3	927,746	7.3	1.0	1,424,552	9.2	0.3
Debt issued	1,445,736	12.1	6.9	1,614,333	12.7	11.4	1,731,808	11.2	13.0
Other financial obligations	53,446	0.4	9.7	67,390	0.6	11.2	95,202	0.6	25.2
Other interest bearing liabilities	318,064	2.7	4.3	340,891	2.7	5.9	462,127	3.0	6.2
Other non-interest bearing liabilities	695,044	5.9		618,130	4.8		1,461,313	9.4	
Total liabilities	Ch\$ 11,904,122	100.0%		Ch\$ 12,736,499	100.0%		Ch\$ 15,512,667	100.0%	

Our most important source of funding is our customer deposits, which consist primarily of peso-denominated, non-interest bearing current accounts and demand deposits and peso- and UF-denominated interest bearing time deposits and savings accounts. Current accounts and demand deposits represented 17.6% of our average total liabilities in 2008, and are our least expensive source of funding. Savings accounts and time deposit and debt issued represented 60.2% of our average liabilities in 2008 and 65.2% of our average liabilities in 2007, respectively.

A sound liquidity strategy ensures the necessary funding for attractive business opportunities and that we meet our financial obligations when they are due. To accomplish these goals, we take care of the trading liquidity held in our portfolios and the diversification of our funding sources.

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In particular, our funding strategy aims to satisfy our customers' needs and to enhance our product base offering while maintaining a prudent diversification of product, currency and maturity. We are focused on broadening the current core and diversified funding obtained through the retail banking business. In addition to this, we are continuously issuing either subordinated or mortgage bonds in order to match both the liquidity and the interest rate risk generated by the long-term mortgage loans. See Item 4. Information on the Company Business Overview Principal Business Activities.

Two limits are established to ensure the diversification of our funding sources. Both limits deal with large fund providers: (1) the funding obtained from an individual large fund provider may not exceed a certain percentage of the Bank's current liabilities; and (2) the funding obtained by all large fund providers may not exceed a certain percentage of our current liabilities. The characteristics of large fund providers are established by the Superintendency of Banks.

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

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

We provide customers with off balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since substantial portions of these commitments are expected to expire without our having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. The amounts of these loan commitments were Ch\$3,875,345 million (U.S.\$7,816 million) and Ch\$3,113,239 million (U.S.\$4,949 million) as of December 31, 2007 and 2008, respectively. The amounts of subscribed leasing contracts were Ch\$104,725 million (U.S.\$211 million) and Ch\$105,325 million (U.S.\$167 million) as of December 31, 2007 and 2008, respectively.

Interest rate and cross-currency swaps, which are entered into in order to hedge the foreign investment portfolio, are recorded at their estimated fair market values. See Note 6 to our audited financial statements.

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

**Financial Guarantees**

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

	<b>As of December 31, 2008 (in millions of constant Ch\$ as of December 31, 2008)</b>
Performance bonds	Ch\$ 1,115,773
Foreign office guarantees and standby letters of credit	212,914
<b>Total</b>	<b>Ch\$ 1,328,687</b>

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

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The expiration of guarantees per period is as follows:

	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years	Total
(in millions of constant Ch\$ as of December 31, 2008)					
Performance bonds	Ch\$ 645,159	Ch\$ 437,839	Ch\$ 30,326	Ch\$ 2,449	Ch\$ 1,115,773
Foreign office guarantees and standby letters of credit	110,110	102,607		197	212,914
<b>Total</b>	<b>Ch\$ 755,269</b>	<b>Ch\$ 540,446</b>	<b>Ch\$ 30,326</b>	<b>Ch\$ 2,646</b>	<b>Ch\$ 1,328,687</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, 2008, the scheduled maturities of our contractual obligations, including accrued interest, were as follows:

	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years	Total
(in millions of constant Ch\$ as of December 31, 2008)					
<b>Contractual Obligations</b>					
Current accounts and other demand deposits	Ch\$ 3,007,261	Ch\$	Ch\$	Ch\$	Ch\$ 3,007,261
Savings accounts and time deposits <sup>(1)</sup>	7,739,224	576,095			8,315,319
Bonds issued	438,656	396,605	213,697	296,053	1,345,011
Borrowings from financial institutions	1,498,549				1,498,549
Other obligations	49,477	13,068	3,947	27,216	93,708
Lease contracts	15,195	22,393	14,751	26,343	78,682
Services contracts	118,983	176,822	165,311	389,954	851,070
Investments sold under agreements to repurchase	420,658				420,658
<b>Total</b>	<b>Ch\$ 13,288,003</b>	<b>Ch\$ 1,184,983</b>	<b>Ch\$ 397,706</b>	<b>Ch\$ 739,566</b>	<b>Ch\$ 15,610,258</b>

(1) Excludes term savings accounts by Ch\$157,271 million.

As of December 31, 2008, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years	Total
(in millions of constant Ch\$ as of December 31, 2008)					
<b>Commercial Commitments</b>					
Letters of Credit	Ch\$ 139,128	Ch\$ 10,965	Ch\$	Ch\$	Ch\$ 150,093

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Guarantees	755,269	540,446	30,326	2,646	1,328,687
Total other commercial commitments	Ch\$ 894,397	Ch\$ 551,411	Ch\$ 30,326	Ch\$ 2,646	Ch\$ 1,478,780

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

Our administration is conducted by our Board of Directors, which, in accordance with our *estatutos*, or bylaws, consists of eleven Directors and two Alternate Directors. The entire Board of Directors is elected every three years. Our current Board of Directors was elected in March 2008 and its term expires in March 2011. Our Alternate Directors were appointed in March 2008. The current Chairman of the Board, Pablo Granifo, was elected in 2007.

Cumulative voting is permitted for the election of directors. Our Chairman and our Chief Executive Officer are appointed by our Board of Directors and hold their offices at its discretion. Scheduled meetings of our Board of Directors are held at least twice a month. Extraordinary Board of Directors meetings may be called by the Chairman, when requested by a majority of the Directors, or, in limited circumstances, when requested by one Director.

Our current Directors are as follows:

<b>Director</b>	<b>Position</b>	<b>Age</b>
Pablo Granifo L.	Chairman	50
Andronico Luksic C.	Vice Chairman	55
Jorge Awad M.	Director	63
Jacob Ergas E.	Director	74
Fernando Quiroz R.	Director	53
Guillermo Luksic C.	Director	52
Raul Anaya E.	Director	54
Gonzalo Menendez D.	Director	60
Juan Andres Fontaine T.	Director	55
Francisco Perez M.	Director	51
Jaime Estevez V.	Director	62
Rodrigo Manubens M.	Alternate Director	50
Thomas Fürst F.	Alternate Director	78

*Pablo Granifo L.* was elected as the Chairman of our Board of Directors in 2007. He was our Chief Executive Officer from 2001 to 2007. He was the Chief Executive Officer of Banco de A. Edwards from 2000 to 2001, a Commercial Manager at Banco Santiago from 1995 to 1999, and a Corporate Manager at Banco Santiago from 1999 to 2000. Mr. Granifo is Chairman of the Board of Directors of Banchile Asesoría Financiera S.A., Socofin S.A., Banchile Securitizadora S.A., Banchile Factoring S.A., and Banchile Administradora General de Fondos S.A., and Chairman of the Executive Committee of Banchile Corredores de Seguros Limitada. He holds a degree in Business from the Pontificia Universidad Católica de Chile.

*Andrónico Luksic C.* was reelected as Director and Vice Chairman of our Board of Directors in 2008, a position he has held every year since 2002. Mr. Luksic is Vice Chairman of Quiñenco S.A. and a member of the Board of Directors at Compañía Cervecerías Unidas S.A., Manufacturas de Cobre Madeco S.A., Industria Nacional de Alimentos S.A., Sociedad de Fomento Fabril (SOFOFA) and Bolsa de Comercio de Santiago. He also serves on the Chairman's Advisory Council at the Council of the Americas, the Advisory Board to the Panama Canal Authority, the Asia-Pacific Economic Cooperation Business Advisory Council, and is a Triennium Participant in the Trilateral Commission and the International Business Leaders Advisory Council of Mayor Han Zheng of the Municipal Government of Shanghai. He is a member of the Board of Trustees at Babson College, the Advisory Committee to the David Rockefeller Center for Latin American Studies at Harvard University, and the Global Advisory Board of Harvard Business School. He was Chairman of the Board of Directors of Banco O Higgins and subsequently Chairman of the Board of Directors of Banco Santiago until May 1999. Mr. Luksic was Director and Chairman of the Board of Directors of Banco de A. Edwards from September 1999 to December 2001. Mr. Andrónico and Mr. Guillermo Luksic are brothers.

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*Jorge Awad M.* has been a member of our Board of Directors since 1996. From 1989 to 1996, he was a member of the Board of Directors of Banco de Santiago. Mr. Awad has been the Chairman of the Board of Directors of Lan Airlines S.A. since 1994 and is a member of the Board of Directors of several other companies, including Envases del Pacifico S.A., Universidad de Talca, and Icare. Previously, Mr. Awad was a Director of Codelco Chile, Television Nacional de Chile, Laboratorio Chile S.A and other companies. He is also a Professor of Business Entrepreneurship at the Universidad de Chile, from which he holds a degree in Commercial Engineering.

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

*Fernando Quiroz* is the ICG Head (Institutional Clients Group) for Citi in Latin America, Chairman of Acciones y Valores Banamex (Accival), and the CEO for ICG Banamex. He is a member of Citi's Senior Leadership Committee and Citi's ICG Management Committee. Prior to his current position, Mr. Quiroz was the Head of Strategy and Corporate Development of Banamex and Citi Latin America. He began his career at Banamex in 1979, holding various positions. He also served as Head Economist of Banamex.

*Guillermo Luksic C.* has been a member of our Board of Directors since 2001 and was previously the Vice Chairman of our Board of Directors from March 2001 to March 2002. Mr. Luksic is Chairman of the Board of Directors of Quiñenco S.A., Compañía Cervecerías Unidas S.A., Viña San Pedro Tarapacá S.A., CNT Telefonica del Sur S.A. and Madeco S.A. Since 2005, he has served as a member of the Board of Directors of Antofagasta PLC. Mr. Luksic is an active member of the Center of Public Studies and a member of the Board of Directors of Universidad Finis Terrae. Mr. Luksic is the brother of Mr. Andronico Luksic.

*Raúl Anaya E.* is Cluster Head for all Citigroup's businesses in Central America and the Caribbean. He is responsible for all business within this region. Mr. Anaya was named to this position in July 2008. He previously served as Chief Executive Officer of Latin America, Citigroup Global Consumer Group since December 2005. Before that, he served as Retail Head for Latin America since February 2005. From August 2003 to January 2005, Mr. Anaya was Executive Director in Charge of Consumer Assets at Banamex in Mexico, responsible for Mortgages, Personal Loans and Auto Financing. Prior to this position, Mr. Anaya was the Divisional Director in Charge of the Center Metropolitan Retail Banking Division in Banamex. From May 1999 to January 2002, Mr. Anaya was Chairman and CEO of Banco Bansud S.A. (formerly a wholly owned subsidiary of Banamex) in Argentina. Mr. Anaya joined Citibank at the Banamex New York Agency in October 1987 and subsequently became General Manager of Banamex Los Angeles Agency, Executive VP of the Corporate and International Banking Division at California Commerce Bank, General Manager of Banamex Houston Agency and General Manager of Banamex New York Agency with responsibility for the U.S. and Canada offices. Mr. Anaya was a member of the Board of Directors of California Commerce Bank from 1996 to 2001.

*Gonzalo Menendez D.* has been a member of our Board of Directors since 2001. He is also the Chairman of the Board of Directors of Inversiones Vita S.A. and Banchile Corredores de Bolsa S.A., and a member of the Boards of Directors of several other companies, including Banchile Asesoría Financiera S.A., Banchile Seguros de Vida S.A., Compañía Nacional de Telefonos, Telefonica del Sur S.A., Minera El Tesoro, Compañía de Telefonos de Coyhaique S.A., Quiñenco S.A., Antofagasta PLC, Minera Michilla S.A., Mining

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Group Antofagasta Minerals S.A., Antofagasta Railway, Minera Los Pelambres, Aguas de Antofagasta S.A., Andsberg Investment Ltd. and Andsberg Limited. He is also Vice Chairman of Fundacion Andronico Luksic A. and Fundación Pascual Baburizza. Previously, Mr. Menendez served as Chief Executive Officer of Antofagasta Railway, Banco O Higgins and Empresas Lucchetti. Since 1990, he has been a Director and is now the Chairman of the Board of Directors of the Latin American Export Bank. Mr. Menendez was a member of the Board of Directors and the Executive Committee of Banco Santiago and a member of the Board of Directors of Banco de A. Edwards. Mr. Menendez was a Professor of Finance and Chilean Economic and Business Policy at the Universidad de Chile. He holds a degree in Business Administration and Accounting from the Universidad de Chile

*Juan Andrés Fontaine* holds degrees in Economics from Pontificia Universidad Católica de Chile and the University of Chicago (MA). He has been a Research Director at the Central Bank of Chile, a Professor at some of the major universities in Chile, a visiting Professor at UCLA, an author of several publications and an international consultant. Currently, he is Partner and Chief Executive of Fontaine & Paúl Consultores, a firm that specializes in economic and financial consultancy in Chile and abroad. He is Chairman of the Board of Bolsa Electrónica de Chile, and a Board member of Quiñenco S.A., Socovesa S.A, and Transelec S.A. He is also an Associate Professor at Pontificia Universidad Católica de Chile.

*Francisco Perez M.* has been a member of our Board of Directors since 2001. Since 1998, Mr. Perez has been the Chief Executive Officer of Quiñenco S.A. He was formerly the Chief Executive Officer of Compañía Cervecerías Unidas S.A., of which he is still a Director. He is also a member of the Board of Directors of Banchile Corredores de Bolsa S.A. Prior to 1991, Mr. Perez was Chief Executive Officer of Citicorp-Chile and also was Vice President of Bankers Trust in Chile. Mr. Perez holds a degree in Business Administration from the Pontificia Universidad Católica de Chile and a Master's Degree in Business Administration from the University of Chicago.

*Jaime Estevez V.* has been a member of our Board of Directors since 2007. Presently, he is also a member of the Board of Directors of Endesa Chile. Previously, Mr. Estevez served as the Chairman of Banco Estado, a state bank. Additionally, he has served as a Director on the boards of AFP Provida and AFP Protección, two Chilean private funds. Mr. Estevez served as Minister of Public Works and Minister of Transport and Telecommunications and was a Congressman and President of the Lower Chamber of Congress. Mr. Estevez holds a degree in Economics from the Universidad de Chile.

*Rodrigo Manubens M.* has been a member of our Board of Directors since 2001. Mr. Manubens was a member of the Board of Directors of Banco de A. Edwards from 1999 until 2001. From 1985 to 1999, Mr. Manubens was a member of the Board of Directors of Banco O Higgins and continued in that role when it merged into Banco Santiago. From 1995 to 1999 he was Chairman of Banco Tornquist in Argentina and a member of the Board of Directors of Banco Sur in Peru and Banco Asuncion in Paraguay. Mr. Manubens also served as a Director and Chairman of Endesa Chile S.A. He is Chairman of Banchile Compañía de Seguros de Vida S.A., and the Director of the Center for International Management at the Adolfo Ibañez Graduate School of Business. Mr. Manubens holds a degree in Business from Universidad Adolfo Ibañez and a Master of Science from the London School of Economics and Political Science.

*Thomas G. Fürst* has been a shareholder and member of our Board of Directors since 2004. He is also a member of the Board of Directors of Banchile Administradora General de Fondos S.A. Previously, Mr. Fürst was Vice Chairman of the Board of Directors at Compañía Cervecerías Unidas S.A. and a member of the Board of Directors of several other companies, including Embotelladoras Chilenas Unidas S.A., Viña Dassault-San Pedro S.A, Southern Breweries Establishment, CCU Argentina S.A. and Compañía Industrial Cervecería S.A. (CICSA). Mr. Fürst was a Founder and member of the Board of Directors of Parque Arauco. In addition, he is a Partner and member of the Board of Directors of Plaza S.A. and Nuevos Desarrollos S.A., the owners of eleven shopping centers around Chile and two in Peru. Mr. Fürst studied Civil Construction at Pontificia Universidad Católica de Chile.

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

Our current Executive Officers are as follows:

<b>Executive Officers</b>	<b>Position</b>	<b>Age</b>
Fernando Cañas B.	Chief Executive Officer	59
Pedro Samhan. E.	Chief Financial Officer	58
Nelson Rojas P.	General Legal Counsel	55
Julio Guzman H.	Manager Corporate Banking Division	55
Mauricio Baeza L.	Manager Corporate Credit Risk Division	46
Alejandro Herrera A.	Manager Individual Banking and Companies Division	52
Patricio Melo G.	Manager Operations and Technology Division	49
Jennie E. Coleman A.	Manager Human Resources Division	55
Arturo Tagle Q.	Manager Strategic Development Division	50
Gonzalo Rios D.	Manager Marketing Division	40
Eduardo Ebensperger O.	Manager Wholesale, Large Corporations and Real Estate Division	43
Juan Cooper A.	Manager Consumer Division	48
Felipe Echaiz B.	Manager Global Compliance Division	42
Andres Bucher. C.	Manager Investment Banking & Capital Markets Division	45
Juan C. Cavallini	Manager Investment Banking & Capital Markets Division	49
Mario Farren R.	Manager Treasury Division	48
Julio Ramirez G.	Manager Individual Credit Risk Division	42
Oscar Mehech C.	Manager Risk Control Division	44

*Fernando Cañas B.* was appointed our Chief Executive Officer in 2007. He was the Chairman of our Board of Directors from 2005 to 2007. Mr. Cañas began his financial services career at Banco Santiago in 1977, and participated in its development and management until 1983. Mr. Cañas returned to Banco Santiago in 1997 as Vice Chairman of its Board of Directors and became Chief Executive Officer in 1998. Mr. Cañas was Chief Executive Officer at Banco O Higgins until its merger with Banco Santiago. He served as Chairman of the Board of Directors at Banco Tornquist in Argentina, and as a Director on the Board of Directors of Banco del Sur in Peru. In 2001, Mr. Cañas became Chairman of the Board of Directors of MasterCard International for Latin America and the Caribbean. In 2002, he was Chief Executive Officer of Banco Santander Chile, and in 2003, he became the General Director and Head of Payment Methods for Latin America Banco Santander Central Hispano, based in Spain. Currently, Mr. Cañas is a member of the Board of Directors of Banchile Factoring S.A., Banchile Asesoría Financiera S.A., Banchile Securitizadora S.A., Socofin S.A. and of the Executive Committee of Banchile Corredores Seguros Limitada. Mr. Cañas has a degree in Business Administration from the Universidad de Chile.

*Pedro Samhan E.* was appointed our Chief Financial Officer on January 1, 2008. On August 21, 2008, he was appointed Director of Banchile Trade Services Limited. Prior to his appointment as Chief Financial Officer, Mr. Samhan was the Chief Financial Officer of Citigroup Chile for several years. He served as a Board member of Cruz Blanca Seguros de Vida (1994 – 1997), AFP Habitat (1996 – 2006) and Compañía Minera Las Luces (1994 – 1996). Mr. Samhan was Chief Financial Officer of Citicorp for Caribbean and Central America (1990 – 1993) and Investment Banking Head of Citicorp Chile (1988 – 1990). Mr. Samhan holds a degree in Civil Industrial Engineering from the Universidad de Chile.

*Nelson Rojas P.* has been our General Counsel and Secretary of our Board of Directors since 2004. In 2002, he joined us as Deputy General Counsel. Mr. Rojas joined Banco de A. Edwards in 1987 and was the General Legal Counsel and Secretary of the Board of Directors of Banco de A. Edwards from 1997 until 2002. He is also Vice President of the Legal Affairs Committee of the Chilean Bank Association. Mr. Rojas holds a degree in Law from the Universidad de Chile.

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*Julio Guzman H.* has managed our Corporate Division since 2002. He joined Banco de A. Edwards in 1992 and was appointed Finance and International Division Manager. From September 2001 to December 2001, he served as General Manager. Mr. Guzman is a member of the Board of Banchile Securitizadora S.A. He holds a degree in Business Administration from the Pontificia Universidad Católica de Chile.

*Mauricio Baeza L.* has been the Manager of the Credit Risk Division since December 2005. Mr. Baeza joined us in 1997 and was Manager of the Risk Division in Banco de A. Edwards during 2001. He was Risk Manager at Banco Santiago from 1993 to 1997 and a member of the Board of Directors of Santiago Administradora de Fondos de Inversion. He is Secretary to the Director's Loan Committee, SOCOFIN SA Committee Advisor, Finance, International and Financial Risk Committee Advisor, and participates in the Portfolio Risk Committee. Mr. Baeza is also a member of the Investment Committee of Banchile Fondo Inmobiliario. Mr. Baeza holds a degree in Civil Engineering from the Pontificia Universidad Católica de Chile.

*Alejandro Herrera A.* has been the Manager of the Individual Banking and Branches Division since 2002. Since 2006, he has also been the Manager of Middle Market Banking. He served as 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. He also served as the Chief Executive Officer of Administradora de Fondos Mutuos Santiago S.A. from 1994 to 1995 and as Branch Manager at Banco Santiago for the Santiago region. Mr. Herrera is a member of the Board of Directors of Banchile Administradora General de Fondos S.A. and Socofin S.A. and a member of the Executive Committee of Banchile Corredores de Seguros Limitada. He holds a degree in Business from the Pontificia Universidad Católica de Valparaiso.

*Patricio Melo* was appointed Operations & Technology Division Manager at Banco Chile on July 1, 2008. He was CEO for Altec Brasil SA. from 2006 until June 2008, being the main person responsible for technological management of Banco Santander in Brazil. He was CEO for Altec Chile from 2001 until 2005. From 1992 until 2000 he joined Banco Santander in Chile and Perú as an Operations & Technology Manager. He has also been a member of various Boards of Directors such as that of Redbanc S.A., ALTEC México and ALTEC Chile. Mr. Melo majored in Electronic Engineering at Universidad Federico Santa María.

*Jennie E. Coleman A.* joined us as Manager of the Human Resources Division in March 2003. Previously, she was the Manager of the Human Resources Division, Manager of Organizational Development, and Training Chief Executive at Banco Santiago, where she worked for more than 23 years. Mrs. Coleman holds a degree in Public Administration from the Universidad de Chile.

*Arturo Tagle Q.* has been the Manager of the Strategic Development Division since 2008. From 2002 to 2007 Mr. Tagle was CFO of the Bank and from 1998 to 2001 he was Head of Internal Audit and Control. Mr. Tagle joined us in 1995. Previously he was General Manager of the Chilean Bankers Association (1990-1994) and Director of Research at the Chilean Superintendency of Banks (1984-1989). Mr. Tagle is the general manager of Sociedad Matriz del Banco de Chile S.A. and SAOS. He holds a degree in Business Administration from the Pontificia Universidad Católica de Chile and a Master's Degree in Business Administration from the University of Chicago.

*Gonzalo Rios D.* has been the Manager of the Marketing Division since November 2005. He was the Marketing Manager of Falabella's Financial Retail Division from 2002 to 2005 and Manager of Non-Store Retail Operations of Falabella Argentina from 2000 to 2002. He was a Business Consultant at McKinsey & Company from 1997 to 2000 and previously worked for IBM Argentina as a Sales Manager. Mr. Rios is a member of the Executive Committee of Banchile Corredores de Seguros Limitada. He holds a degree in Electrical Engineering from Instituto Tecnológico de Buenos Aires and an MBA from the Massachusetts Institute of Technology.

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*Oscar Mehech C.* was appointed head of our Risk Control Division in July 2008, after being Head of our Regulatory Policies Division since January 2008, and formerly our Global Compliance Head until December 2007. Mr. Mehech joined us in 2002 as a result of the merger with Banco de A. Edwards and since 2004 held the position of Deputy General Counsel of the Bank and Secretary of the Board of Banchile Asesoría Financiera S.A. Previously, he was the Deputy General Counsel of Banco de A. Edwards, which he joined in 1991. Mr. Mehech holds a law degree from Universidad de Chile.

*Eduardo Ebensperger O.* has been the Manager of the Wholesale, Large Companies and Real Estate Division since June 2005, and was previously the Chief Executive Officer of Banchile Factoring S.A. from 2002 to 2005. He joined Banco de A. Edwards in 1989. Mr. Ebensperger was Manager of the Medium Size Companies division and Manager of the regional branches of Banco de A. Edwards from 1997 to 2001. Presently, Mr. Ebensperger is the Chairman of the Board of Directors of Artikos S.A. He is also currently a member of the Board of Directors of Banchile Asesoría Financiera S.A., Banchile Factoring S.A. and Banchile Securitizadora S.A. Mr. Ebensperger holds a degree in Business from the Universidad de Chile.

*Juan Cooper A.* has been the Manager of the consumer division since 2003. He was the Chief Executive Officer of Altavida Santander Compañía de Seguros de Vida S.A. from 2001 to 2002 and the Manager of the Santiago Express division of Banco Santiago from 1993 to 2000. He is also currently a member of the Board of Directors of Socofin S.A., and a member of the Executive Committee of Banchile Corredores Seguros Limitada. Mr. Cooper has a degree in Business from the Universidad de Chile and a master's degree in Business Administration from the Pontificia Universidad Católica de Chile.

*Felipe Echaiz B.* has been the Global Compliance Division Manager since January 2008. He joined us this year as a result of the merger with Citibank Chile. Mr. Echaiz worked at Citibank for ten years and was Citigroup's Country Compliance Officer from 2006 to 2007. In 2003, he was the Deputy Director to the Anti-Money Laundering and Organized Crime Unit (Public Prosecutor's Office). Mr. Echaiz is a member of the Executive Committee for Anti-Money Laundering of the Chilean Banks Association and holds a degree in Law from the Pontificia Universidad Católica de Chile, and a Master's Degree in Finance and Economics from the Universidad de Chile.

*Andres Bucher C.* has 19 years of experience in investment banking and capital markets. He was Managing Director and Co-Head of Investment Banking and Capital Markets for Citibank Chile and currently is the Co-Head of Investment Banking & Capital Markets for Banco de Chile. Mr. Bucher has led and participated directly in a significant number of M&A and capital markets transactions with a number of local and international clients in a wide range of industries. Mr. Bucher holds an Industrial Engineering degree from the Universidad Católica de Chile and a Master's Degree in Business Administration from the Wharton School, University of Pennsylvania.

*Juan Carlos Cavallini* has over 20 years of experience in investment banking, capital markets and corporate banking. He was Managing Director and Head of the Corporate Bank for Citibank Chile and currently is the Co-Head of Investment Banking & Capital Markets for Banco de Chile. Mr. Cavallini joined Citibank in 1986. From 1993 to 1996, he was based in New York in Citi's International Corporate Finance Division. Mr. Cavallini also was Co-Head of the Investment Bank and Capital Markets Division in Citi and was appointed a Senior Securities Officer in 2003 and a Senior Credit Officer in 2005. Mr. Cavallini holds an Industrial Engineering degree from the Universidad Católica de Chile.

*Mario Farren R.* has been the Corporate and Investment Bank Head of Banco de Chile since September 1, 2008. Between January and September 2008 he was Head of the Treasury Division. Prior to serving in this position, Mr. Farren was the Country Treasurer for Citi Chile. In addition, Mr. Farren has held other positions in Citi Latin America and Citi New York, such as Country Treasurer and Investment Bank Head in Citi Uruguay, Treasury Products Sales Head in New York and Country Treasurer in Citi Colombia. He joined Citibank Chile in 1991 where he served as Derivative Head and General Manager of Citigroup Chile S.A. Corredores de Bolsa, among other positions. He holds a business degree from Universidad de Chile and a Master of Business Administration degree from the University of Chicago, Illinois.

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*Julio Ramírez G.* was appointed head of our Individual Credit Risk Division in January 2008. Mr. Ramírez joined us in 2002 as a result of the merger with Banco de A. Edwards, where he had been since 1990. From 2002 to 2007, Mr. Ramírez was Manager of the Individual Credit Risk Area, which was part of the Credit Risk Division. Mr. Ramírez is a member of the Board of Directors of Socofin S.A. He holds a degree in Business from the Universidad de Chile.

**COMPENSATION**

The table below presents the amount of compensation, as established by our shareholders, to the members of our Board of Directors for the year ended December 31, 2008. These amounts include remuneration for services, fees for attendance at Board meetings, committee meetings and subsidiary Board meetings and consulting and travel expenses.

Name of Director	Remuneration	Fees for attendance at committee meetings and subsidiary board meetings			Total
		Fees for attendance at board meetings	Fees for attendance at committee meetings and subsidiary board meetings	Consulting	
	(in millions of Ch\$)	(in millions of Ch\$)	(in millions of Ch\$)	(in millions of Ch\$)	(in millions of Ch\$)
Pablo Granifo Lavín	Ch\$ 363	Ch\$ 51	Ch\$ 332	Ch\$	Ch\$ 746
Andrónico Luksic Craig	147	9			156
Jorge Awad Mehech	49	25	74		148
Hernán Büchi Buc	12	4	14	10	40
Jacob Ergas Ergas	49	19	47		115
Jaime Estévez Valencia	49	26	76		151
Guillermo Luksic Craig	49	13			62
Rodrigo Manubens Moltedo	49	25	66		140
Gonzalo Menéndez Duque	49	23	121		193
Francisco Pérez Mackenna	49	23	62		134
Thomas Fürst Freiwirth	49	21	56		126
Jorge Ergas Heymann	1	2	2		5
Juan Andres Fontaine Talavera	38	20	46		104
Fernando Quiroz Robles					
Raul Anaya Elizalde					
Other subsidiary directors			123		123
<b>Total</b>	<b>Ch\$ 953</b>	<b>Ch\$ 261</b>	<b>Ch\$ 1019</b>	<b>Ch\$ 10</b>	<b>Ch\$ 2,243</b>

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, 2008, the aggregate amount of compensation paid to our senior management, including the senior management of our subsidiaries, was Ch\$7,022 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, 2008, no amounts were set aside or accrued by us to provide pension, retirement or similar benefits for our directors and officers.

**Indebtedness of Directors and Executive Officers**

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



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

Chilean law contains additional provisions restricting transactions with affiliates not involving directors or executive officers. The Chilean Corporations Law requires that our transactions with related parties be on market terms. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is to be entered into. Directors of companies that violate this provision are liable for losses resulting from such violation. As disclosed in Note 22 to our audited consolidated financial statements, we incurred an aggregate of Ch\$26,044 million in expenses and Ch\$650 million in income from transactions other than loans with related parties in 2008.

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\$318,422 million in loans to, including Ch\$108,345 million in collateral pledged by, related parties as of December 31, 2008. See Note 22 to our audited consolidated financial statements for details concerning these transactions.

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**BOARD PRACTICES**

**Governance Practices**

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

*The Directors/Audit Committee*

Prior to March 24, 2005, the Directors Committee and Audit Committee were separate committees performing independent functions for the Board of Directors. On March 24, 2005, the Board of Directors resolved to merge the Directors Committee with the Audit Committee, forming the Directors/Audit Committee. The Committee's objectives are to seek the efficiency, maintenance, application and functioning of our internal control systems and compliance with the applicable rules and procedures governing our business; to identify our business risks; to supervise the functions of both the risk control division and the global compliance division, ensuring their independence from management; to serve as the link and coordinator of tasks between the internal audit work and the independent auditors; and to act as a link with our Board of Directors.

Our Directors/Audit Committee is composed of three members appointed by the Board of Directors. The Directors/Audit Committee is currently composed of the following individuals:

Jorge Awad M. (chair and financial expert);

Jaime Estevez V.; and

Fernando Quiroz R.

Mr. Awad was appointed as a member of the Directors/Audit Committee by the Board of Directors at the Board meeting held on April 12, 2007. Mr. Estevez was appointed to the Directors/Audit Committee at the meeting of the Board of Directors held on April 12, 2007. Mr. Quiroz was appointed to the Directors/Audit Committee at the meeting of the Board of Directors held on January 24, 2008.

Messrs. Awad and Estevez satisfy the independence requirements of both Chilean law and Rule 10A-3 under the Exchange Act and are full voting members of our Directors/Audit Committee.

Mr. Fernando Quiroz R. is exempt from the independence requirements of Rule 10A-3 pursuant to the exemption under Rule 10A-3(b)(1)(iv)(D). Pursuant to that exemption, Mr. Quiroz is a non-voting member of our Directors/Audit Committee with respect to all matters required to be addressed by our Audit Committee under U.S. federal securities laws.

The Directors/Audit Committee usually meets monthly and at least eight times a year. The budget of the Directors/Audit Committee is approved annually at the ordinary shareholders' meeting. The Directors/Audit Committee satisfies the applicable requirements of the Chilean Superintendency of Banks and operates pursuant to a charter document. The Chilean Superintendency of Banks recommends that at least one of the members of the Committee be experienced with respect to the accounting procedures and financial aspects of banking operations. The Committee submits a report regarding its activities to our Board of Directors after each Directors/Audit Committee meeting and presents an annual report at our annual shareholder's meeting. As established in the Committee's bylaws, the Chief Executive Officer, the General Legal Counsel and the Controller, or their respective deputies, shall also attend meetings. The Committee may also invite other persons to attend meetings.

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The Committee may appoint independent personnel to carry out specific duties. The Committee's objectives include:

Seeking efficiency, maintenance, application and functioning of the internal control systems, and compliance with rules and procedures;

Supervising compliance with the rules and procedures governing the banking business and identifying the business risks of the Bank and its subsidiaries;

Supervising the functions of the Corporate Credit Risk and Market Risk Division and Individual Credit Risk Division, ensuring their independence from the management;

Supervising the functions of the Compliance Division;

Serving as a link and coordinator of tasks between the internal audit work and the external auditors, and acting as a link between these and the Bank's board;

Examining the fees budget for the external auditors and for the credit-rating agencies;

Analyzing the reports, content, procedures and scope of the revisions by the external auditors and credit-rating agencies;

Analyzing and generating information on the annual internal audit program and the results of internal audits and revisions;

Analyzing the interim and annual financial statements;

Analyzing the Bank's financial statements included in Form 20-F, for presentation to the Securities and Exchange Commission (SEC);

Gathering information on accounting changes occurring during the year and their effects;

Reviewing of special cases affecting the internal control systems;

Analyzing the remuneration systems and compensation plans for managers and senior executives;

Analyzing the annual performance self-evaluation process carried out by the Bank;

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Analyzing related party transactions, i.e. those referred to in clauses 44 and 89 of Chilean Corporations Law;

Analyzing policies relating to operational risk and progress in the risk-management process and SOX self-evaluation, in the context of Basel II;

Analyzing and informing on matters related to the Compliance Division, principally regarding the revision of policies for detecting and sanctioning money-laundering transactions; and

Reviewing customer reports made through the SBIF.

### ***Portfolio Committee***

The main function of the Portfolio Committee is to inform the Board of Directors of changes in the composition and risk of our loan portfolio from both a global perspective and from a sector point of view, and also segmented by lines of business. The Committee closely reviews the performance of our principal debtors, overdue loan ratios, past-due loan indicators, write-offs and allowances for loan losses.

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

This Committee meets on a monthly basis and is comprised of two directors in addition to our Chief Executive Officer, the Companies Credit Risk Manager, the Individual Credit Risk Manager and the Risks and Restructuring Control Manager.

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

The Credit Committee of Directors provides the highest level of approval of credit proposals presented by our credit risk segment and commercial officers. The Committee evaluates proposals with respect to loans that would expose us to credit risks in excess of UF 750,000. It also evaluates proposals based upon certain qualitative aspects irrespective of approval amounts, such as the approval of customers whose eventual collections might adversely affect our corporate image or the approval of transactions with related parties. The Committee meets on a weekly basis and is comprised of the entire Board of Directors.

### ***Finance, International and Market Risk Committee***

The Finance, International and Market Risk Committee provides a forum for members to discuss and analyze the implementation of financial management policies. The Committee meets monthly and is comprised of four directors, our Chief Executive Officer, Corporate Credit Risk and Market Risk Division Manager, the Manager of Corporate and Investments Division, the Chief Financial Officer, and the Market Risk Area Manager. Committee members conduct analyses and make presentations to the Committee regarding certain matters, including:

The evolution and current status of the Bank's financial positions and market risks of price and liquidity including both those that have been generated in the past and those currently being generated;

Knowledge of the current status of market risk, which permits forecasting potential future losses;

Validation of the estimation of results of the Bank's financial position;

Analysis of the liabilities of the international financial exposure and major credit exposures generated by derivative transactions; and

The design of policies and procedures regarding the financial position limits and warning settings, as well as their control and reporting.

### ***Asset Laundering Prevention Committee***

The Asset Laundering and Financing of Terrorism Prevention Committee was set up in April 2006 with the purpose of defining the policies and procedures that would comprise the Asset Laundering and Financing of Terrorism Prevention System, as well as evaluating compliance and deciding on all matters related to these subjects.

This Committee includes the Chairman of the Board, the Chief Executive Officer, the General Legal Counsel, the Operations and Technology Division Manager and the General Manager of Banchile Administradora General de Fondos. The Corporate Credit Risk and Market Risk Division Manager, the Compliance Division Manager and the Prevention of Asset Laundering Area Manager also serve as members of the Committee with the right to speak.

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The Committee meets monthly and is charged to pursue with pursuing the following functions:

To approve the policies and procedures concerning knowledge of the Corporation's customers and their activities, and the acceptance and monitoring of their accounts, products and operations;

To approve policies and procedures concerning unusual transaction detection systems; formal channels of information to senior levels; and monitoring, analysis and reporting mechanisms;

To approve policies and procedures concerning methods to improve vigilance and improve relations with correspondent banks;

To approve policies and procedures concerning staff selection, training programs and codes of conduct;

To revise and analyze the results of the revisions made to verify compliance with current policies and procedures;

To consider the transactions analyzed and decisions made by the Transactions Analysis Committee;

To consider and approve specific training plans proposed by the Global Compliance Division; and

To inform the Board of regulatory changes related to the prevention of asset laundering and financing of terrorism.

### ***Disclosure Committee***

In May 2003, we established the Disclosure Committee to check the accuracy and depth of the financial information given to the market. The members of the Disclosure Committee include the Chief Accountant, the Senior Lawyer for International Matters, the Controller's Division Manager, the Financial Officer, the Research and Planning Area Manager, and the Investors Relations Manager. The members of the Disclosure Committee are involved in reviewing quarterly reports and in general all the financial information disclosed by the Bank prior to its disclosure.

### ***Ethics Committee***

The Ethics Committee was formed in 2005 to define, promote and regulate behavior of professional and personal excellence by all the staff of Banco de Chile, coherent with the company's philosophy and values, in order to meet the expectations of trust granted by our customers.

To meet these objectives and promote a culture of ethical behavior, the Committee arranges activities regarding regulation, training and communications. The Committee sets policies on ethics and ensures their compliance, develops training plans related to ethics in our business, and reinforces positive behavior among our staff. The Committee also acts as a forum for resolving the various situations where there is a conflict between certain types of conduct and the values promoted by the Bank. This Committee is chaired by the Manager of the Human Resources Division and includes the General Legal Counsel and the Managers of the Controller's, Compliance, Individuals, Middle Market Companies, Operations and Technology, and Corporate Divisions.

### ***Citigroup and Banco de Chile Cooperation Agreements Committees***

In order to control and review the evolution of the joint initiatives resulting from our strategic association between Banco de Chile and Citigroup, four committees have been set up to ensure the operation of the Direction Committee referred to in the Cooperation Agreement between both parties. These four



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committees are comprised of the Chairman of the Bank, the Chief Executive Officer and the two members of the Board representing Citigroup. Also taking part in these meetings are Division Managers related to each business and the Managers of the areas directly responsible for the respective business.

### ***Global Transaction Services Committee (GTS)***

The Global Transaction Services Committee was set up with the purpose of monitoring the overall performance of the banking transactions according to the Global Connectivity and Cooperation Agreements and in particular, the functioning of the local and international cash management, custody for foreign investors, and foreign trade services.

### ***International Personal Banking and Private Banking Committee (IPB)***

The main goal of the International Personal Banking and Private Banking Committee is to monitor the functioning of the Global Connectivity and Cooperation Agreements in relation to the services provided by Banco de Chile to Citibank with respect to its financial products and services offered abroad to residents of Chile.

### ***Investment Banking Committee***

The objective of the Investment Banking Committee is to favor the development of cross border merger and acquisition transactions, issuances and acquisitions of debt paper and capital markets for the Bank's customers and customers of Citigroup doing business in Chile. This Committee is responsible for monitoring the execution of those transactions performed under the Global Connectivity Agreement and collaborating in the exploration of investment banking business opportunities, as well as ensuring that the Agreement signed regarding these matters is met.

### ***Financial Control Committee of the Cooperation Agreement***

The most important purpose of this Committee is to monitor in detail the operative and financial performance of the Global Connectivity and Cooperation Agreements signed with Citigroup. This Committee checks that solutions are reached for all administrative and operative matters that permit the joint business to be carried out effectively, efficiently and profitably by both parties, ensuring compliance with the Agreements in the matters indicated above.

### **Approval of Policies and Procedures under the Merger Agreement**

The Merger Agreement between Banco de Chile and Citibank Chile provided that the Board of Directors of Banco de Chile would approve and implement certain policies relating to the operation of the Bank. At the time of filing of this annual report, the following policies have been approved and implemented, among others:

Policy regarding Personal Investing and Use of Privileged Information;

Policy regarding Inter-company Transactions;

Policy regarding Expenditures and Investments;

Policy regarding Administration of Goods Received as Payment or Granted as Payment of Obligations;

Tax Policy;

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Policy that establishes prohibitions to condition products; and

Policy regarding Prevention of Improper Conduct.

In addition to the policies mentioned above, Banco de Chile is in the process of supplementing other policies currently in force at Banco de Chile to regulate issues of importance for our business, such as prevention of asset-laundering, credit risk, and market risk.

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

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

	As of December 31,		
	2006	2007	2008
Banco de Chile	7,232	8,641	10,814
Overseas branches and representative offices	125	95	6
Subsidiaries	3,862	3,231	3,760
Total	11,219	11,967	14,580

As of December 31, 2008, we had 14,580 employees (on a consolidated basis) of which approximately 5,519, or 37.9%, were unionized. All management positions are held by non-unionized employees. As of May 18, 2009, we were a party to five collective bargaining agreements covering our unionized employees. Four of the collective bargaining agreements were signed in May 2008 and will expire in April 2012. The other collective bargaining agreement was assumed as part of the merger with Citibank Chile and it has been in effect since September 2007 and is set to expire in September 2009. We have not experienced a strike in the last 10 years and consider relations with our employees to be satisfactory. During 2008, two of our subsidiaries, (Socofin S.A. and Promarket S.A.), entered into certain collective bargaining agreements.

We have a comprehensive personnel training and development program that includes internal courses on operational, technical and commercial matters as well as participation in external seminars. In 2008, the total cost of training programs was approximately 0.6% of total personnel salaries and expense. We do not maintain any pension or retirement programs for the vast majority of our employees. We do, however, pay certain long-serving key employees a severance payment upon retirement. Although we have, in the past, provided productivity bonuses to individual employees on a discretionary basis, we do not maintain a formal profit-sharing plan.

**SHARE OWNERSHIP**

Mr. Andronico Luksic and Mr. Guillermo Luksic, members of our Board of Directors since March 2002 and March 2001, respectively, together with members of their family, control Quiñenco S.A. As of June 17, 2009, Quiñenco S.A. owns 32.74% of our outstanding shares (directly and indirectly through LQ Inversiones Financieras S.A.). Additionally, Quiñenco S.A. holds 61.71% of the voting rights in Banco de Chile (directly and indirectly through shares of SM-Chile S.A. that are owned by LQ Inversiones Financieras S.A. and Inversiones LQ-SM S.A.).

In connection with the Framework Agreement executed between Citigroup, Inc. and Quiñenco S.A. in July 2007, which was amended on December 19, 2008, following the merger of Citibank Chile into Banco de Chile, Citigroup became a shareholder of LQ Inversiones Financieras S.A. ( LQIF ), the parent corporation of SM-Chile S.A. and Banco de Chile. As of June 17, 2009, Citigroup is the owner of 32.96% of LQIF and Quiñenco directly and indirectly owns 67.04% of LQIF. As part of the Framework Agreement, as amended on December 19, 2008, Citigroup may increase its ownership participation in LQIF to either 41.4778% or 50% subject to the terms set forth in such Amendment. Regardless of any increase in participation by Citi, however, the agreement provides that Quiñenco will remain in control of LQIF and the corporations that are directly or indirectly controlled by LQIF. Accordingly, Quiñenco will maintain the power to elect the majority of the directors of LQIF, SM-Chile and Banco de Chile.

Mr. Jacob Ergas, a member of our Board of Directors since January 1, 2002, controls Ever I Bae S.A., Ever Chile S.A. and Inversiones Aspen Limitada. As of June 17, 2009, these holding companies own 2.16%, 2.16% and 1.49% of our outstanding shares, respectively. Mr. Ergas holds 5.82% of the voting rights in Banco de Chile through these holding companies.

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

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

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

The following table sets forth certain information regarding the ownership of outstanding shares as of June 17, 2009 for the following:

each person or entity who is known by us to own beneficially more than 5% of our outstanding share capital or voting power; and

our Directors and members of our executive management group, as a group.

<b>Name</b>	<b>Amount Owned</b>	<b>Percentage<sup>(1)</sup></b>
LQ Inversiones Financieras S.A. and SM Chile S.A. <sup>(2)</sup>	67,756,773,175	82.08%
Jacob Ergas <sup>(3)</sup>	4,802,102,236	5.82%
Directors and executive officers as a group (28 persons)	18,207,884	0.02%

- (1) Percentages are based on 82,551,699,423 common shares outstanding as of June 17, 2009. This number includes 73,834,890,472 ordinary shares and 8,716,808,951 ordinary shares of the series Banco de Chile-S, which resulted from the merger with Citibank Chile.
- (2) LQ Inversiones Financieras S.A. ( LQIF ) holds these shares directly and indirectly through SM-Chile S.A. In connection with the Framework Agreement executed between Citigroup, Inc. and Quiñenco S.A. in July 2007 and following the merger of Citibank Chile into Banco de Chile, Citigroup became a shareholder of LQIF. As of June 17, 2009, Citigroup is the owner of 32.96% of LQIF and Quiñenco directly and indirectly owns 67.04% of LQIF. Regardless of any increase in participation by Citi, however, the agreement provides that Quiñenco will remain in control of LQIF and the corporations that are directly or indirectly controlled by LQIF. Accordingly, Quiñenco will maintain the power to elect the majority of the directors of LQIF, SM-Chile and Banco de Chile. As of December 31, 2008, members of the Luksic family or their affiliates beneficially owned 83.1% of the common shares of Quiñenco S.A. Mr. Andronico Luksic and Mr. Guillermo Luksic are members of our Board of Directors.
- (3) Mr. Jacob Ergas, a member of our Board of Directors, holds his shares through Ever I Bae S.A., Ever Chile S.A. and Inversiones Aspen Ltda., which are holding companies under his control.

**RELATED PARTY TRANSACTIONS**

In the ordinary course of our business, we engage in a variety of transactions with certain of our affiliates and related parties. Financial information concerning these transactions is set forth in Note 22 to our audited consolidated financial statements. The Chilean Corporations Law requires that our transactions with related parties be on market terms or on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market on the date the transaction is entered into. Directors of companies that violate this provision are liable for losses resulting from such violations.

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



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All resolutions approving such transactions must be reported to the company's shareholders at the following 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 22 to our audited consolidated financial statements for a more detailed accounting of transactions with related parties.

On July 19, 2007, Quiñenco S.A., Citigroup Inc. and Citibank Overseas Investment Corporation entered into a Master Joint Venture Agreement (the Framework Agreement) that set forth the parameters of a partnership between Quiñenco and Citigroup, including the eventual merger of Citibank Chile into Banco de Chile. The Framework Agreement provided that Citigroup would initially acquire a 32.96% equity interest in LQIF, the controlling shareholder of Banco de Chile, and would be entitled to increase its stake in LQIF to either 41.4778% or 50% through the exercise of several options. In this regard, Citigroup could also increase its stake in LQIF to 41.4778% if Quiñenco exercised its put option under the Framework Agreement. The acquisition by Citigroup of its initial interest in LQIF occurred, with effect on January 1, 2008, under the terms of the Framework Agreement and the corresponding Merger Agreement between Banco de Chile and Citibank Chile. For purposes of the Merger Agreement, the operations and businesses of Citibank Chile that were effectively contributed to Banco de Chile were deemed to represent 10.497% of the post-merger entity and, together with other assets and businesses contributed by Citigroup to LQIF, were the basis for issuance by LQIF to Citigroup of the 32.96% equity interest in LQIF. As consideration for the merger and as a result of the Extraordinary Shareholders' Meeting held on December 27, 2007, we issued and conveyed to LQIF (and indirectly, the holders of Citibank Chile shares) 8,443,861,140 no-par value Banco de Chile S-Series shares.

Under the Framework Agreement, Quiñenco remains as the controlling shareholder of LQIF and therefore of Banco de Chile, while Citigroup is granted certain governance and other shareholder rights in LQIF. With respect to the governance of Banco de Chile, Citigroup has the right to name two directors to the eleven-member board of directors of Banco de Chile, while Quiñenco would maintain the right to appoint a majority of our board of directors. Citigroup also has the power to propose the appointment of certain officers of Banco de Chile (including the Chief Financial Officer) and at least one representative on each of our directors' committees. Under this agreement, Citigroup was also granted certain veto rights over certain fundamental strategic decisions (as defined in the Framework Agreement), such as the delisting of Banco de Chile's shares from the New York Stock Exchange or the Chilean stock exchanges, entry into new lines of business or large acquisitions, approval of related party transactions and changes to our bylaws or organizational documents. Furthermore, Citigroup agreed to purchase substantially all of the assets of the North American (i.e., Miami and New York) branches of Banco de Chile for US\$130 million. In the event that Citigroup were to beneficially own 50% of LQIF, Citigroup would become entitled to name up to five of our 11 directors (such number to be reduced by the number of directors appointed by minority shareholders, provided that Citigroup always shall have the right to appoint at least one director), including the Vice-Chairman of our board of directors. However, even in this circumstance, Quiñenco would still be entitled to appoint a majority of our board of directors. The Framework Agreement also set forth a series of ancillary agreements proposed to be entered into by the parties to the Framework Agreement and their Affiliates.

On December 19, 2008, Quiñenco S.A., Citigroup Inc. and Citibank Overseas Investment Corporation amended the Framework Agreement, and through it the Shareholders' Agreement mentioned below. The Amendment to the Framework Agreement provides that if Citigroup does not acquire 8.52% of LQIF's shares (such that Citigroup holds a 41.4778% in LQIF) as provided in the Amendment as a consequence of the actions and decisions of any relevant authority in the United States, Quiñenco shall have the right to a compensation as provided in the Amendment, and Citigroup shall have the option of acquiring either a 41.4778% or a 50% share of LQIF. Furthermore, the Amendment provides that if for any reason Citigroup does not exercise any of the call options mentioned in the previous sentence, Quiñenco or its affiliates, as applicable, shall be entitled to require Citigroup that it sell to them an amount of shares of LQIF such that, after such sale, Quiñenco or its affiliates shall own an 80.1% stake in LQIF. If this occurs, Citigroup's

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governance and other shareholder rights mentioned in the preceding paragraph shall be those provided in Clause Six of the Shareholders Agreement referred to below.

On December 27, 2007, Quiñenco S.A., Citigroup Chile S.A. and the minority shareholders of LQIF entered into a Shareholders Agreement that formalized the rights of Citigroup with respect to the governance of Banco de Chile as set forth in the Framework Agreement (and as discussed in the preceding paragraph). The Shareholders Agreement became effective on January 1, 2008.

On December 27, 2007, we entered into a Global Connectivity Agreement with Citigroup Inc. The purpose of this agreement is to enable Banco de Chile and its clients to become part of Citigroup's Global Network and to provide a framework for Banco de Chile and Citigroup to direct new business to the partnership in order to generate wealth creation for both institutions. The agreement sets forth the terms upon which Banco de Chile, Citigroup and their affiliates will develop a relationship with respect to cross-border business and services being applied to Corporate and Investment Banking, International Personal Banking, Global Transactions Services, and other services and products. The parties agreed on the following principles with respect to implementing the terms of the agreement: (i) the promotion of global connectivity products among Chilean customers, (ii) the setup of a technology platform, (iii) the training of bank officers, and (iv) the construction of international support networks to carry out the transactions contemplated by the agreement. On February 27, 2009, Banco de Chile and Citigroup, Inc. amended the Global Connectivity Agreement. The purpose of the amendment was to clarify and supplement the terms of the original agreement with respect to the banking services to be provided in Chile and abroad.

On December 27, 2007, we also entered into a Trademark License Agreement with Citigroup Inc. in which Citigroup granted us a non-exclusive paid-up and royalty-free license to use certain Citi trademarks in Chilean territory. In addition, Citigroup granted us a license to use its domain name solely in connection with marketing and promoting authorized services in Chilean territory. On February 27, 2009 Banco de Chile and Citigroup amended the Trademark License Agreement. The amendment provides that Banco de Chile must deliver a certificate at least once a year that confirms Banco de Chile's compliance with the standards set forth in the agreement. In addition, Banco de Chile must comply with certain additional quality control standards approved periodically by Citigroup relating to certain products, and Citigroup has the right to review and inspect all materials relating to the offer and sale of certain products.

On December 27, 2007, we entered into a Cooperation Agreement with Citigroup Inc. The purpose of this agreement is to provide a framework for regulating the interplay of issues created by the above mentioned Citibank Chile merger transaction agreements and to facilitate a successful relationship between Banco de Chile and Citigroup. In particular, this agreement establishes a communication mechanism between the parties to enhance the exchange of ideas and information related to the integration of our business with that of Citigroup in Chile and it also provides for certain specific areas of collaboration going forward (such as with respect to our hedging and derivatives strategies). On February 27, 2009, Banco de Chile and Citigroup amended the Cooperation Agreement to require the companies to define a more formal process for sharing information about regulatory changes in the United States and Chile that may have an impact on Banco de Chile.

On December 31, 2007, we entered into an Asset Purchase Agreement with Citibank, N.A., whereby we sold substantially all of the assets and operations of our banking businesses in Miami and New York to Citibank and Citibank agreed to offer employment to substantially all of the employees and to assume substantially all of the liabilities related to such assets and operations. In consideration for this sale, we were paid an aggregate purchase price of U.S.\$130 million, in addition to the assumption of liabilities. Following the completion of the sale, the Miami and New York branches were placed in voluntary liquidation in January 2008. In March 2008, the banking licenses for both branches were surrendered to the appropriate banking regulator.

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On December 23, 2008, Banco de Chile and Compañía Nacional de Teléfonos, Telefónica del Sur S.A. ( Telsur ) agreed to enter into a Trade Agreement in order to optimize the placement and use of credit cards issued by the Bank. This commercial alliance seeks to implement a system linked to credit cards issued by the Bank and will provide discounts, benefits and incentives to be given to clients of both the Bank and Telsur.

On December 30, 2008 we entered into an agreement with Banchile Seguros de Vida S.A., an affiliated insurance brokerage company, setting forth the specific terms of the life insurance policies associated with customer loans contracted by us for its borrower portfolio on behalf of the borrowers. The conditions of this agreement are an integral part of all the life insurance policies that we offer our borrowers. The agreement can be automatically renewed for two additional one-year periods through December 31, 2011.

All the terms and conditions contained in the agreements mentioned above were previously reviewed and approved by our Board of Directors.

In addition, we are concluding negotiations of a Master Services Agreement with Citigroup Inc. This Agreement has the purpose of regulating and supplementing certain reciprocal services that, before the merger, had been provided pursuant to the terms of certain service level agreements then in effect between Citigroup Inc. (and certain of its affiliates) and Citibank Chile, which were assumed, after the merger, by Banco de Chile as legal successor to Citibank Chile. Furthermore, this Agreement seeks to foster global connectivity with respect to the banking and financial services referred to in the Global Connectivity Agreement and in the other agreements executed with Citigroup mentioned above. The Master Services Agreement is subject to approval by the Chilean Superintendency of Banks.

**Loans to Related Parties**

As authorized by the Chilean General Banking Law, and within the regulatory limits, we hold several outstanding loans owed by different corporations related to us. All such loans (i) were made in the ordinary course of business, (ii) were made on terms, including interest rates and collateral, substantially the same as those prevailing at the time for comparable transactions with other persons, and (iii) did not involve more than the normal risk of collectibility or present other unfavorable features. See Note 22 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.

In September 2004, the Federal Agencies of the Office of the Comptroller of the Currency (OCC) and the Federal Reserve Bank of Atlanta reviewed our New York and Miami branches respectively, in order to evaluate, among other matters, their compliance with the requirements of the U.S. Bank Secrecy Act and other U.S. regulations pertaining to the prevention of money laundering. On February 1, 2005, as a consequence of these reviews, we agreed with the OCC to the issuance of a Consent Order and with the Federal Reserve Bank of Atlanta to the issuance of a Cease and Desist Order. To comply with these orders, an action plan was developed to include the development and maintenance of programs designed to strengthen compliance with the aforementioned regulations.

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On March 12, 2008, the OCC Consent Order was terminated as a consequence of the voluntary liquidation of our New York branch. Likewise, on June 12, 2008, the Cease and Desist Order issued by the Federal Reserve Bank in Atlanta was terminated as a consequence of the voluntary liquidation of our Miami branch.

On March 11, 2009, the Consejo de Defensa del Estado de la Republica de Chile filed a complaint against Banco de Chile in the United States District Court of the Southern District of Florida. The complaint alleges substantive civil violations of the Racketeer Influenced & Corrupt Organizations Act ( RICO ), RICO conspiracy, aiding and abetting RICO violations, and aiding and abetting a breach of fiduciary duty. The complaint seeks redress for funds allegedly misappropriated from the Chilean government by the former President of Chile, Augusto Pinochet, and it alleges that Banco de Chile participated in conduct related to a money laundering scheme. Damages being sought are \$22 million, which amount is subject to trebling pursuant to RICO.

It is not possible to predict the outcome of this matter, or what impact, if any, it might have. As of the date of filing this annual report, Banco de Chile has not been served with the complaint, and it has not waived (and does not waive by virtue of filing this annual report) any of its rights with respect to service of process of the complaint. Banco de Chile believes it has meritorious defenses to the complaint, and it intends to defend this matter vigorously if and when it is served.

### **Dividends**

We currently have two series of common shares, and the dividends on our shares are proposed by our Board of Directors and are approved by our shareholders at the annual ordinary shareholders meeting following the year with respect to which the dividends are proposed. Our annual ordinary shareholders meeting is held in the first three months of each year. Following shareholder approval, the dividends are declared and paid. Dividends are paid to shareholders of record on the fifth business day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of our ADSs are, to the extent practicable, the same. Under the Chilean Corporations Law and regulations issued thereunder, Chilean public corporations are generally required to distribute at least 30% of their earnings as dividends. Previously, a bank was permitted to distribute less than such minimum amount in any given year with approval of the holders of at least two-thirds of the bank's outstanding stock. In 2006, however, this possibility was eliminated by law. Under the General Banking Law, a Chilean bank may only pay a single dividend per year (i.e., interim dividends are not permitted).

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

We currently have two series of capital shares: Banco de Chile common shares and Banco de Chile S-series shares. We have a total of 82,551,699,423 outstanding shares with no par value, consisting of 73,834,890,472 ordinary shares and 8,716,808,951 ordinary shares of the series Banco de Chile-S, which resulted from the merger with Citibank Chile. All of our shares are duly subscribed and paid.

In March 2007, we paid a nominal dividend of Ch\$1.9796 per share. At the Ordinary Shareholders Meeting on March 27, 2008, the shareholders agreed to the distribution and payment of dividend No. 196, in the amount of Ch\$3.359690 per Banco de Chile common share, with a charge to the 2007 income of Banco de Chile, and the distribution and payment of a dividend of Ch\$2.626161 per share of the Banco de Chile-S series. In March 2009, we paid a nominal dividend of Ch\$2.357790 per share. At the Ordinary Shareholders Meeting held on March 26, 2009, the shareholders agreed to the distribution and payment of dividend No. 197, in the amount of Ch\$2.357790 per Banco de Chile common share, with a charge to the 2008 income of Banco de Chile, and the distribution and payment of a dividend of Ch\$2.357790 per share of the Banco de Chile-S series.

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During an Extraordinary Shareholders Meeting on December 27, 2007, our shareholders approved, among other things, (i) the merger with Citibank Chile and (ii) a capital increase in the amount of Ch\$297,324,899,039, which was contributed and paid for as consideration for the acquisition of all of the assets and liabilities of Citibank Chile. It was further agreed that the Bank would issue 8,443,861,140 registered, ordinary no-par Banco de Chile-S series shares, which were to be delivered to the shareholders of Citibank Chile, in the proportion of 8,443.86114 shares of Banco de Chile-S for each Citibank Chile share. For a more detailed description of this Extraordinary Shareholders Meeting, see Item 10. Additional Information Memorandum and Articles of Association Shareholders Meetings and Voting Rights.

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

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

The following table sets forth the cash dividends declared per common share and per ADS during the periods indicated:

	As of and for the Year Ended December 31,					
	2004	2005	2006	2007	2008	2008
	(in constant Ch\$ as of December 31, 2008, except for percentages in U.S.\$)					
Dividend payout ratio <sup>(1)</sup>	100.0%	100.0%	82.9%	82.7%	100.0%	100.0%
Dividend per common share <sup>(2)</sup>	2.44	2.87	2.64	2.73	3.63	0.006

(1) Dividend payout ratio is calculated by dividing the amount of dividends paid by the earnings per share of the prior year.

(2) Dividends per share are calculated by dividing the amount of the dividend paid during each year by the previous year's number of shares outstanding.

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 Valparaíso 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.\$134.1 billion as of December 31, 2008 and an average monthly trading volume of approximately U.S.\$2,620 million for 2008. The Santiago Stock Exchange was established in 1893 and is a private company whose equity consists of 48 shares held by 45 shareholders. As of December 31, 2008, 300 series of shares were listed on the Santiago Stock Exchange.



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The Santiago Stock Exchange accounts, for approximately 87.2% of all amounts traded in Chile. The ten largest companies in terms of market capitalization represented, as of December 31, 2008, approximately 44.1% of the Santiago Stock Exchange's aggregate market capitalization and during 2008 accounted for approximately 33.0% of its total volume. During 2008, 20.7% 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 12.4% of equity trading in Chile is conducted on the Chilean Electronic Stock Exchange, an electronic trading market that was created by banks and non-member brokerage houses. The remaining 0.4% of equity is traded on the Valparaiso Stock Exchange.

ADs, each representing 600 shares of common stock, without nominal (par) value, have been listed on the NYSE since January 2, 2002 under the symbol BCH. JPMorgan Chase Bank is our depository for purposes of issuing the ADRs evidencing our ADs. As of December 31, 2008, a maximum of 1,113,380 ADs were outstanding (equivalent to 668,028,183 shares of common stock or 0.83% of the total number of issued shares of common stock). Since certain of our ADs are held by brokers or other nominees, the number of direct record holders in the United States may not be fully indicative of the number of direct beneficial owners in the United States or of where the direct beneficial owners of such shares are resident.

We listed our shares on Latibex, and trading of our shares started on that exchange on October 8, 2002 under the code XBCH, grouped in trading units of 600 shares. In addition, since December 20, 2002, our shares are listed on the LSE.

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

	Santiago Stock Exchange Common Stock		Electronic Stock Exchange Common Stock		Valparaiso Stock Exchange Common Stock	
	High (Ch\$ per share) <sup>(1)</sup>	Low (Ch\$ per share) <sup>(1)</sup>	High (Ch\$ per share) <sup>(1)</sup>	Low (Ch\$ per share) <sup>(1)</sup>	High (Ch\$ per share) <sup>(1)</sup>	Low (Ch\$ per share) <sup>(1)</sup>
<b>Annual Price History</b>						
2004	Ch\$ 36.8	Ch\$ 26.5	Ch\$ 36.8	Ch\$ 26.0	Ch\$ 36.8	Ch\$ 26.5
2005	37.7	32.0	38.0	32.0	38.8	30.0
2006	45.9	32.0	46.0	31.4	46.0	31.7
2007	48.2	38.1	49.0	37.5	48.0	37.5
2008	43.6	26.1	43.4	26.5	42.8	27.0
<b>Quarterly Price History</b>						
2007						
1 <sup>st</sup> Quarter	47.0	40.6	47.3	41.0	47.1	40.8
2 <sup>nd</sup> Quarter	48.2	40.5	48.0	40.0	47.0	40.9
3 <sup>rd</sup> Quarter	47.9	38.6	49.0	37.5	48.0	37.5
4 <sup>th</sup> Quarter	44.0	38.1	44.5	37.9	43.5	38.0
2008						
1 <sup>st</sup> Quarter	43.6	36.0	43.4	35.6	42.8	36.1
2 <sup>nd</sup> Quarter	40.5	38.2	40.7	38.2	40.0	38.1
3 <sup>rd</sup> Quarter	38.4	35.4	39.1	35.5	38.5	35.6
4 <sup>th</sup> Quarter	36.5	26.1	36.5	26.5	36.2	27.0
2009						
1 <sup>st</sup> Quarter	37.4	34.0	37.0	34.1	37.5	34.0
<b>Monthly Price History</b>						
December 2008	34.6	32.0	34.5	32.0	34.9	32.7
January 2009	36.8	34.2	36.5	34.1	36.3	34.3
February 2009	37.4	35.5	37.0	35.8	37.5	35.5
March 2009	36.7	34.0	36.8	34.2	36.2	34.0
April 2009	34.9	33.4	34.9	33.5	34.4	33.4
May 2009	38.9	35.5	39.0	34.7	38.9	35.5

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 ADS <sup>(1)</sup>		Latibex Trading Units <sup>(2)</sup>	
	High (U.S.\$ per ADS)	Low (U.S.\$ per ADS)	High (Euros per Trading Unit)	Low (Euros per Trading Unit)
<b>Annual Price History</b>				
2008	U.S.\$ 56.60	U.S.\$ 22.76	36.49	18.03
<b>Quarterly Price History</b>				
2008				
1 <sup>st</sup> Quarter	56.60	44.46	36.49	30.06
2 <sup>nd</sup> Quarter	53.29	43.20	33.35	28.05
3 <sup>rd</sup> Quarter	44.69	37.06	29.67	25.93
4 <sup>th</sup> Quarter	37.86	22.76	27.37	18.03
2009				
1 <sup>st</sup> Quarter	36.86	30.85	29.04	22.10
<b>Monthly Price History</b>				
December 2008	32.02	27.51	22.87	21.48
January 2009	36.29	30.85	26.29	22.10
February 2009	36.80	33.18	29.04	25.67
March 2009	36.86	33.21	28.46	25.09
April 2009	35.10	33.06	26.54	25.23
May 2009	41.60	35.45	28.69	26.76

Sources: Bloomberg.

(1) One ADS represents 600 shares of common stock.

(2) One Trading Unit represents 600 shares of common stock.

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**Item 10. Additional Information**

**MEMORANDUM AND ARTICLES OF ASSOCIATION**

Set forth below is a brief summary of the significant provisions of our bylaws, or *estatutos* and Chilean law. This description contains all material information concerning our shares, but does not purport to be complete and is qualified in its entirety by reference to our *estatutos* (a copy of which has been incorporated by reference into this annual report), the General Banking Law, the Chilean Corporations Law and the Securities Market Law.

We are an open stock (public) corporation. Open stock (public) corporations are those with 500 or more shareholders, or companies in which 100 or more shareholders own at least 10% of the subscribed capital (excluding those whose individual holdings exceed 10%), and all other companies that are registered in the Securities Registry of the Chilean Superintendency of Securities and Insurance. The Chilean Corporations Law sets forth the rules and requirements for establishing open stock corporations. Shareholder rights in a Chilean bank that is also an open stock corporation are governed by the bank's *estatutos*, which effectively serve as both the articles of incorporation and the bylaws of a company incorporated in the United States. Article 137 of the Chilean Corporations Law provides that all provisions of the Chilean Corporations Law take precedence over any contrary provision in a corporation's *estatutos*. Both the Chilean Corporations Law and our *estatutos* provide that legal actions by shareholders against us (or our officers or directors) to enforce their rights as shareholders or by one shareholder against another in their capacity as such are to be brought in Chile in arbitration proceedings.

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 are currently two outstanding series of our capital stock. We have a total of 82,551,699,423 outstanding shares with no par value, consisting of 73,834,890,472 ordinary shares and 8,716,808,951 ordinary shares of the series Banco de Chile-S, which resulted from the merger of Citibank Chile with and into the Bank. For the avoidance of doubt, please note that there is no preferred class of shares and each series of our ordinary shares confer the same rights to shareholders. All of the shares are duly subscribed and paid. There are no legal restrictions on the payment of dividends from our net income, except that we may only pay a single dividend per year (*i.e.*, interim dividends are not permitted). Chilean public corporations are generally required to distribute at least 30% of their earnings as dividends. Previously, a bank was permitted to distribute less than such minimum amount in any given year if the holders of at least two-thirds of the bank's outstanding stock so determined, but in 2006 that possibility was eliminated by law. All of our shares have full voting rights.

Under Chilean law, the shareholders of a company, acting at an Extraordinary Shareholders Meeting, have the power to authorize an increase in the company's capital. When an investor subscribes for issued shares, the shares are registered in such investor's name, even if not paid for, and the investor is treated as a shareholder for all purposes except with regard to receipt of dividends and the return of capital. The investor becomes eligible to receive dividends or the return of capital once it has paid for the shares; if it has paid for only a portion of such shares, it is entitled to reserve a corresponding pro-rata portion of the dividends declared with respect to such shares unless the company's bylaws provide otherwise. If an investor does not pay for shares for which it has subscribed on or prior to the date agreed upon for payment, the company is entitled under Chilean law to auction the shares on the stock exchange and collect the difference, if any, between the subscription price and the auction proceeds. However, until such shares are sold at auction, the subscriber

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continues to exercise all the rights of a shareholder (except the right to receive dividends or the return of capital). In the case of banks, authorized shares and issued shares that have not been paid for within the period fixed for their payment by the Chilean Superintendency of Banks are cancelled and are no longer available for issuance by the company.

The Chilean Corporations Law provides that the purchaser of shares of a company implicitly accepts its bylaws and any agreements adopted at shareholders meetings.

### **Directors**

For a description of the provisions of our *estatutos* relating to our Board of Directors and our Directors/Audit Committee, see Item 6. Directors, Senior Management and Employees.

### **Ownership Restrictions**

Under the Securities Market Law and the regulations of the Chilean Superintendency of Banks, shareholders of open stock corporations are required to report the following to the Chilean Superintendency of Securities and Insurance and the Chilean stock exchanges:

any direct or indirect acquisition or sale of shares that results in the holder s acquiring or disposing of, directly or indirectly, 10% or more of an open stock corporation s share capital; and

any direct or indirect acquisition or sale of shares or options to buy or sell shares, in any amount, if made by a holder of 10% or more of an open stock corporation s capital or if made by a director, liquidator, main officer, general manager or manager of such corporation.

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 the company or if the acquisition is just a financial investment. A beneficial owner of ADSs representing 10% or more of our share capital will be subject to these reporting requirements under Chilean law.

According to the regulations of the Chilean Superintendency of Banks, Chilean banks that issue ADSs are required to inform the Chilean Superintendency of Banks if any person, directly or beneficially, acquires ADSs representing 5% or more of the total amount of shares of capital stock issued by such bank.

Under the Securities Market Law and the regulations of the Chilean Superintendency of Banks, persons or entities intending to acquire control, directly or indirectly, of an open stock corporation are also required to inform the public of such intention at least 10 business days in advance but, in any case, as soon as negotiations regarding the change of control begin (*i.e.*, when information and documents concerning the target are delivered to the potential acquirer) through a filing with the Chilean Superintendency of Securities and Insurance, the stock exchanges, companies controlled by and that control the target and through a notice published in two Chilean newspapers, which notice must disclose, among other information, the person or entity purchasing or selling, the price and the material conditions of any negotiations.

Prior to such publication, a written communication to such effect must be sent to the target corporation, to the controlling corporation, to the corporations controlled by the target corporation, to the Chilean Superintendency of Securities and Insurance and to the Chilean stock exchanges. Title XV of the Securities Market Law provides the definition of a controlling power, direct holding and related party.

The General Banking Law provides that, as a matter of public policy, no person or company may acquire, directly or indirectly, more than 10% of the shares of a bank without the prior authorization of the Chilean Superintendency of Banks, which may not be unreasonably withheld. The prohibition also applies to beneficial owners of ADSs. In the absence of such authorization, any person or group of persons acting in concert would not be permitted to exercise voting rights with respect to the shares or ADSs acquired. In determining whether to issue such an authorization, the Chilean Superintendency of Banks considers a number of factors enumerated in the General Banking Law, including the financial stability of the purchasing party.

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The General Banking Law also requires the prior authorization of the Chilean Superintendency of Banks for the following transactions:

the merger of two or more banks;

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

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

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

The above mentioned authorization is required when the acquiring bank or the resulting group of banks, after the transaction is consummated, would own a significant market share in loans, defined by the Chilean Superintendency of Banks to be more than 15.0% of all loans in the Chilean banking system. This authorization may be denied by the Chilean Superintendency of Banks only by means of a founded resolution and if the petitioner does not comply with certain requirements, such as financial stability and commercial soundness.

If a merger between two or more banks results in a market share greater than 15% but less than 20%, the authorization of the Chilean Superintendency of Banks is conditioned on the post-merger bank maintaining the percentage of paid-in capital and reserves to risk-weighted assets of not less than 10% for a period established by the Superintendency (but in no event less than one year).

When any of the aforementioned transactions results in a market share of 20% or greater for the resulting bank, the authorization may be conditioned on one or more of the following:

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

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

that the margin for interbank loans be diminished to 20% of the resulting bank's paid-in capital and reserves.

The General Banking Law and the regulations issued by the Chilean Superintendency of Banks provide that individuals that are holders of shares and who beneficially own more than 1% of the shares may be considered related to the bank and imposes certain restrictions on the amounts and terms of loans to them made by the related bank. This rule also applies to beneficial owners of ADSs representing more than 1% of the shares.

### **Preemptive Rights and Increases of Share Capital**

The Chilean Corporations Law provides that whenever a Chilean company issues new shares for cash, it must offer its existing shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentages in the company. Pursuant to this requirement, we must offer preemptive rights in connection with any future issue of shares to the depositary as the registered owner of the shares underlying the ADSs. However, the depositary will not be able to make the preemptive rights available to U.S. holders of ADSs unless a registration statement under the Securities Act, is effective with respect to the underlying shares or an exemption from the registration requirements thereunder is available.

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We intend to evaluate, at the time of any preemptive rights offering, the practicality under Chilean law and Central Bank regulations in effect at the time of making such rights available to our ADS holders, as well as the costs and potential liabilities associated with the registration of such rights and the related shares of common stock under the Securities Act, and the indirect benefits to us of thereby enabling the exercise by all or certain U.S. holders of ADSs of their preemptive rights and any other factors we consider appropriate at the time. There can be no assurance that any registration statement would be filed. If we do not file a registration statement and no exemption from the registration requirements under the Securities Act is available, the depositary will sell such holders' preemptive rights and distribute the proceeds if a premium can be recognized over the cost of such sale.

In the event that the depositary is not able, or determines that it is not feasible, to sell such rights at a premium over the cost of any such sale, all or certain U.S. holders of ADSs may receive no value for such rights. Non-U.S. holders of ADSs may be able to exercise their preemptive rights regardless of whether a registration statement is filed. The inability of all or certain U.S. holders of ADSs to exercise preemptive rights in respect of shares of common stock underlying such ADSs could result in such holders not maintaining their percentage ownership of the common stock following a preemptive rights offering unless the holder made additional market purchases of ADSs or shares of common stock.

Under Chilean law, the preemptive right to subscribe new shares for cash must be exercised or transferred by shareholders within 30 days following the grant of such rights. For an open stock corporation during such period, and for an additional 30-day period thereafter, such corporation is not permitted to offer any unsubscribed shares for sale to third parties on more favorable terms than those offered to its shareholders. However, at the end of such additional 30-day period, a Chilean open stock corporation is authorized to sell unsubscribed shares to third parties on any terms, provided that they are sold on a Chilean stock exchange.

### **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, elects our Board of Directors and any other matter that does not require an Extraordinary Shareholders Meeting. 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.

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The Shareholders Meetings pass resolutions by the affirmative vote of an absolute majority of those voting shares present or represented at the meeting. Approval by a two-thirds majority of the issued shares, however, is required at any Shareholders Meeting to approve any of the following actions:

a change in corporate form, merger or spin-off;

an amendment to our term of existence or early dissolution;

a change in corporate domicile;

a decrease of corporate capital;

the approval of capital contributions in kind and a valuation of the assets contributed;

a modification of the powers of shareholders or limitations on the powers of our board of directors;

a reduction in the number of members of our board of directors;

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 aggregate their votes for the election of directors and cast the same in favor of one person.

In general, Chilean law does not require a Chilean open stock corporation to provide the level and type of information that U.S. securities laws require a reporting company to provide to its shareholders in connection with a solicitation of proxies. Shareholders are entitled to examine the books of a company within the 15-day period before its Ordinary Annual Meeting.

The Chilean Corporations Law provides that whenever shareholders representing 10% or more of the issued voting shares so request, a Chilean company's annual report must include, in addition to the materials provided by the board of directors to shareholders, any shareholders' comments and proposals in relation to the company's affairs. Similarly, the Chilean Corporations Law provides that whenever the board of directors of an open stock corporation convenes an ordinary meeting of the shareholders and solicits proxies for that meeting, or distributes information supporting its decisions or other similar material, it is obligated to include as an annex to its annual report any pertinent comments and proposals that may have been made by shareholders owning 10% or more of the company's voting shares who have requested that such comments and proposals be included.



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Only shareholders registered as such with us on the fifth business day prior to the date of a meeting are entitled to attend and vote their shares. A shareholder may appoint another individual (who need not be a shareholder) as his proxy to attend and vote on his behalf. Every shareholder entitled to attend and vote at a shareholders' meeting has one vote for every share subscribed.

An Extraordinary Shareholders' Meeting was held on December 27, 2007 and the following issues were discussed and the following decisions were made:

Approval of the merger by absorption of Citibank Chile into Banco de Chile, under the terms set forth in the Merger Agreement executed by the parties on December 26, 2007. As a result of the merger, the Bank acquired all the assets and assumed all the liabilities of Citibank Chile, and it succeeded to all of the assets and all of the liabilities of the latter. The merger was approved by Citibank Chile's Extraordinary Shareholders' Meeting. In addition, the shareholders ratified the other agreements executed in connection with the Citibank Chile merger (i.e., the Asset Purchase Agreement, the License Agreement, the Cooperation Agreement and the Global Connectivity Agreement).

A capital increase was approved in the amount of Ch\$297,324,899,039, which was contributed and paid for as consideration for the acquisition of all of the assets and liabilities of Citibank Chile. It was resolved that the Bank would issue 8,443,861,140 registered, ordinary no-par Banco de Chile-S series shares, which were to be delivered to the shareholders of Citibank Chile, in the proportion of 8,443,861,140 shares of Banco de Chile-S for each Citibank Chile share. The Banco de Chile-S series shares shall not be subject to the Exchange Agreement signed by the Central Bank of Chile and its subsequent modifications by virtue of the application of Agreements No. 1.167-03-041209 and No. 1.333-01-070510 of the Governing Council of the Central Bank of Chile.

It was agreed that the merger was to become effective as of January 1, 2008, and that the profits of each bank corresponding to the financial year 2007 were to correspond in to the shareholders of each respective institution in the manner and under the conditions determined by the Ordinary Shareholders' Meeting of the post-merger bank.

Some modifications to the Articles of Incorporation of Banco de Chile were approved, as proposed by the Board of Directors (as detailed below). The issuance of a rewritten, coordinated and systemized text of the Articles of Incorporation of the Bank was also approved.

The modifications to the Articles of Incorporation are as follows:

Article Five was amended in order to establish the new capital of the Bank, the new amount of shares and the creation of a new series of ordinary shares ( Banco de Chile-S );

Article Eight was modified in order to establish that, in the case of any vacancy of Alternate Directors, any replacement Director will be appointed by the Board so that the second Alternate Director will stand in the place of the first Alternate Director automatically;

Article Ten was modified to change the term during which a Board of Directors Meeting must be held when it has been convened by one or more Directors, to modify the term of any notice for such meetings, and the means by which these notices can be carried out;

Article Fifteen was amended to establish a new system for replacing the Chairman. Accordingly, in case of absence or incapacity of the Chairman of the Board, he shall be replaced in his functions by a Director appointed by the Board of Directors, and not by the Vice President;



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Article Nineteen was modified in order to change the system by which an election at a Shareholders Meeting is conducted. The existing *viva voce* mechanism was replaced by voting by slip of paper for shareholder votes. Additionally, the counting of votes can be carried out by a notary public, without prejudice to the resolutions adopted by the shareholders or by the Chilean Superintendency of Banks; and

New transitional articles were included to make reference to the merger between Banco de Chile and Citibank Chile and to the new capital of the Bank.

At the Ordinary Shareholders Meeting of the Bank, held on March 27, 2008, the Board of Directors was renewed, due to the end of the legal and statutory three-year terms for the Directors. Alternate Directors were also designated. In addition, the shareholders agreed to the distribution and payment of dividend No. 196, in the amount of Ch\$3.359690 per Banco de Chile common share, with a charge to the 2007 income of Banco de Chile, and the distribution and payment of a dividend of Ch\$2.626161 per share of the Banco de Chile-S series.

At the Ordinary Shareholders Meeting of the Bank, held on March 26, 2009, the shareholders agreed to the distribution and payment of dividend No. 197, in the amount of Ch\$2.357790 per Banco de Chile common share, with a charge to the 2008 income of Banco de Chile, and the distribution and payment of a dividend of Ch\$2.357790 per share of the Banco de Chile-S series.

At the Extraordinary Shareholders Meeting of the Bank, held on March 26, 2009, the shareholders agreed that 30% of the net income obtained during the fiscal year ending December 31, 2008, would be capitalized through the issuance of fully paid-in shares, of no par value, with a value of \$31.26 per share, which would be distributed among the shareholders in the proportion of 0.032325 fully paid-in shares for each share held by shareholders at the date prescribed by law.

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

For a description of the provisions of our *estatutos* related to our dividends, see Item 8. Financial Information Consolidated Statements and Other Financial Information Dividends.

Under the Chilean Corporations Law, Chilean companies are generally required to distribute at least 30% of their earnings as dividends. Previously, the General Banking Law stated that banks were permitted to distribute less than such minimum amount in any given year with the approval of holders of at least two-thirds of the bank's common stock. In 2006, however, this possibility was eliminated by law. In the event of any loss of capital or decrease in the legal reserve, no dividends can be distributed until the loss is recovered. Also, a bank cannot distribute dividends above the legal minimum if doing so would result in the bank exceeding its maximum indebtedness ratio or its lending limits. See Item 8. Financial Information Consolidated Statements and Other Financial Information Dividends.

Dividends that are declared but not paid by the date set for payment at the time of declaration are adjusted from the date set for payment to the date they are actually paid, and interest is accrued thereon. The right to receive a dividend lapses if it is not claimed within five years from the date the dividend is payable.

We may declare a dividend in cash or in shares. When a share dividend is declared above the legal minimum (which minimum must be paid in cash), our shareholders must be given the option to elect to receive cash. A U.S. holder of our ADSs may, in the absence of an effective registration statement under the Securities Act or an available exemption from the registration requirement thereunder, effectively be required to receive a dividend in cash. See Preemptive Rights and Increases of Share Capital.

In the event of our liquidation, the holders of our fully paid shares would share 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.

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In accordance with the General Banking Law, our shareholders would have no appraisal rights in the event of a business combination or otherwise.

**Approval of Financial Statements**

Our Board of Directors is required to submit our audited consolidated financial statements to the shareholders annually for their approval. The approval or rejection of the financial statements is entirely within our shareholders' discretion. If our shareholders reject our financial statements, our Board of Directors must submit new financial statements not later than 60 calendar days from the date of the rejection. If our shareholders reject our new financial statements, our entire Board of Directors is deemed removed from office and a new Board of Directors is elected at the same meeting. Directors who individually approved our financial statements are disqualified from running for re-election for the ensuing period.

**Registrations and Transfers**

We act as our own registrar and transfer agent, as is customary among Chilean companies. In the case of jointly owned shares, an attorney-in-fact must be appointed to represent the joint owners in dealings with us.

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**EXCHANGE CONTROLS**

The Central Bank is responsible for, among other things, monetary policies and exchange controls in Chile. Appropriate registration of a foreign investment in Chile grants the investor access to the Formal Exchange Market. Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 or can be registered with the Central Bank under the Central Bank Act.

On April 16, 2001, the Central Bank agreed that, effective April 19, 2001:

the prior foreign exchange restrictions would be eliminated; and

a new *Compendio de Normas de Cambios Internacionales*, or Compendium of Foreign Exchange Regulations, would be applied. The main objective of this change, as declared by the Central Bank, is to facilitate capital movements from and into Chile and encourage foreign investment.

The following specific restrictions were eliminated:

A reserve requirement with the Central Bank for a period of one year. This mandatory reserve was previously imposed on foreign loans and funds brought into Chile to purchase shares other than those acquired in the establishment of a new company or in the capital increase of the issuing company. This reserve requirement was decreased from 30% to 0% of the proposed investment on September 16, 1998;

The requirement for prior approval by the Central Bank for certain operations, such as repatriation of investments and payments to foreign creditors;

the mandatory return of foreign currencies to Chile; and

The mandatory conversion of foreign currencies into Chilean pesos.  
Under the amended regulations, only the following limitations are applicable to these operations:

The Central Bank must be provided with information related to certain operations, such as foreign investments and foreign credits; and

Certain operations, such as money transfers to and from Chile must be conducted within the Formal Exchange Market. The Central Bank also eliminated Chapter XXVI of the Compendium of Foreign Exchange Regulations, which regulated the establishment of an ADR facility by a Chilean company. According to the new rules, it is not necessary to seek the Central Bank's prior approval in order to establish an ADR facility. The establishment of an ADR facility is now regarded as an ordinary foreign investment. The establishment of an ADR facility now simply requires that the Central Bank be informed of the transaction, and that the transaction be conducted exclusively through the Formal Exchange Market.

**Foreign Investment Contract**

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

We are a party, as legal successor of Banco de A. Edwards, to the currently existing foreign investment contract with the Central Bank and the depositary (a copy of which was filed as an exhibit to Banco de A. Edwards' registration statement on Form F-1 (Registration No. 33-97594) filed with the Securities and Exchange Commission on September 29, 1995). Absent the foreign investment contract, under applicable Chilean exchange controls, investors would not be granted access to the Formal Exchange Market for the

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purpose of converting pesos to U.S. dollars and repatriating from Chile amounts received with respect to deposited shares or shares withdrawn from deposit on surrender of ADSs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying shares and any rights arising therefrom).

The following is a summary of the material provisions of the foreign investment contract. This summary does not purport to be complete and is qualified in its entirety by reference to the foreign investment contract. Under the foreign investment contract, the Central Bank agrees to grant to the depositary, on behalf of ADR holders, and to any investor not residing or domiciled in Chile who withdraws shares upon delivery of ADRs (we refer to such shares as withdrawn shares), access to the Formal Exchange Market to convert pesos to U.S. dollars (and remit such U.S. dollars outside of Chile) in respect of shares represented by ADSs or withdrawn shares, including amounts received as:

cash dividends;

proceeds from the sale in Chile of withdrawn shares (subject to receipt by the Central Bank of a certificate from the holder of the withdrawn shares (or from an institution authorized by the Central Bank) that such holder's residence and domicile are outside Chile and a certificate from a Chilean stock exchange (or from a brokerage or securities firm established in Chile) that such withdrawn shares were sold on a Chilean stock exchange);

proceeds from the sale in Chile of rights to subscribe for additional shares;

proceeds from our liquidation, merger or consolidation; and

other distributions, including without limitation those resulting from any recapitalization as a result of holding shares represented by ADSs or withdrawn shares.

Transferees of withdrawn shares will not be entitled to any of the foregoing rights unless the withdrawn shares are redeposited with the depositary. Investors receiving withdrawn shares in exchange for ADRs will have the right to redeposit such shares in exchange for ADRs, provided that the conditions to redeposit are satisfied.

The foreign investment contract provides that a person who brings foreign currency into Chile to purchase shares with the benefit of the foreign investment contract must convert the foreign currency into pesos on the same date as the foreign currency is brought into Chile and then has five banking business days within which to invest the currency in shares in order to receive the benefits of the foreign investment contract. If the person decides within that period not to acquire shares, he or she can access the formal exchange market to reacquire dollars, provided that the applicable request is presented to the Central Bank within seven banking business days of the initial conversion into pesos. Shares acquired as described above may be deposited for ADSs and receive the benefits of the foreign investment contract, subject to:

receipt by the Central Bank of a certificate from the depositary that such deposit has been effected and that the related ADRs have been issued; and

receipt by the custodian of a declaration from the person making such deposit waiving the benefits of the foreign investment contract with respect to the deposited shares.

Access to the Formal Exchange Market under any of the circumstances described above is not automatic. Such access requires approval of the Central Bank based on a request presented through a banking institution established in Chile. The foreign investment contract provides that if the Central Bank has not acted on the request within seven banking days, the request will be deemed approved.



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Under current Chilean law, the foreign investment contract cannot be changed unilaterally by the Central Bank, and there are judicial precedents (which are not binding with respect to future judicial decisions) indicating that the foreign investment contract may not be abrogated by future legislative changes. On May 10, 2007, the Board of the Central Bank resolved to interpret the regulations regarding the previously established Chapter XXVI in connection with the access granted to the Formal Exchange Market. These regulations allow entities that endeavor to carry out capital increases by means of the issuance of cash shares before August 31, 2007 to apply the aforementioned regulation to their capital increases, but only once and only if those shares can be fully subscribed and paid by August 31, 2008, among other conditions. Consequently, capital increases carried out after August 31, 2007 (including, for example, the issuance of the Banco de Chile-S series shares in connection with our merger with Citibank Chile) will have no guaranteed access to the Formal Exchange Market. Furthermore, there is no assurance that (i) additional Chilean restrictions may be inapplicable to the holders of ADRs, (ii) the disposition of underlying shares or the repatriation of the proceeds from such disposition will be subject to restrictions in the future and (iii) we cannot assess the duration or impact of such restrictions if imposed.

**TAXATION****Chilean Tax Considerations**

The following discussion is based on certain Chilean income tax laws presently in force, including Ruling No. 324 of January 29, 1990 of the *Servicio de Impuestos Internos*, or the Chilean Internal Revenue Service, and other applicable regulations and rulings. The discussion summarizes the principal Chilean income tax consequences of an investment in ADSs or shares of common stock by an individual who is not domiciled in, or a resident of, Chile or a legal entity that is not organized under the laws of Chile and does not have a permanent establishment located in Chile, which we refer to as a foreign holder. For purposes of Chilean tax law, an individual holder is a resident of Chile if he or she has resided in Chile for more than six consecutive months in one calendar year or for a total of more than six months, whether consecutive or not, in two consecutive tax years. An individual holder is domiciled in Chile if he or she resides in Chile with the purpose of staying in Chile (such purpose to be evidenced by circumstances such as the acceptance of employment within Chile or the relocation of his or her family to Chile). This discussion is not intended as tax advice to any particular investor, which can be rendered only in light of that investor's particular tax situation.

Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign holders, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may be amended only by another statute. In addition, the Chilean tax authorities issue rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean taxes may not be assessed retroactively against taxpayers who act in good faith relying on such rulings and regulations, but Chilean tax authorities may change rulings and regulations prospectively. There is no general income tax treaty in force between Chile and the United States.

***Cash Dividends and Other Distributions***

Cash dividends paid by us with respect to ADSs or shares of common stock held by a foreign holder will be subject to a 35.0% Chilean withholding tax, which is withheld and paid over by us, which we refer to as the Chilean withholding tax. A credit against the Chilean withholding tax is available based on the level of corporate income tax, or first category tax, actually paid on the taxable income to which the dividend is imputed; however, this credit does not reduce the Chilean withholding tax on a one-for-one basis because it also increases the base on which the Chilean withholding tax is imposed. In addition, distribution of book income in excess of retained taxable income is subject to the Chilean withholding tax, but such distribution is not eligible for the credit. Under Chilean income tax law, for purposes of determining the level of the first category tax paid, dividends generally are assumed to have been paid out of oldest retained taxable profits. The effective rate of withholding tax to be imposed on dividends paid by us will vary depending upon the amount of first category tax paid by us on the earnings to which the dividends are attributed. In our case, the amount paid as first category tax is lower than it would be based on our income because the dividends paid to SAOS are accounted for as a cost to us. Presently, the first category tax rate is 17%. Whether the first category tax is imposed or not, the effective overall combined rate of Chilean taxes imposed with respect to our distributed profits is 35.0%.

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The foregoing tax consequences apply to cash dividends paid and dividend distributions made in property, other than shares of common stock. Share dividends are not subject to Chilean taxation.

### ***Capital Gains***

Gain realized on the sale, exchange or other disposition by a foreign holder of ADSs (or ADRs evidencing ADSs) will not be subject to Chilean taxation, provided that such disposition occurs outside Chile or that it is performed under the rules of Title XXIV of the Chilean Securities Market Law. The deposit and withdrawal of shares of common stock in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on the sale or exchange of shares of common stock (as distinguished from sales or exchanges of ADSs representing such shares of common stock) by a foreign holder will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter) if (1) the foreign holder has held such shares of common stock for less than one year since exchanging ADSs for the shares of common stock, (2) the foreign holder acquired and disposed of the shares of common stock in the ordinary course of its business or as a regular trader of stock or (3) the sale is made to a company in which the foreign holder holds an interest (10.0% or more of the shares in the case of open stock corporations). In all other cases, gain on the disposition of shares of common stock will be subject only to the first category tax levied as a sole tax. However, if it is impossible to determine the taxable capital gain, a 5.0% withholding will be imposed on the total amount to be remitted abroad, without any deductions, as a provisional payment of the total tax due.

The tax basis of shares of common stock received in exchange for ADSs will be the acquisition value of such shares on the date of the exchange. The valuation procedure set forth in the deposit agreement, which values shares of common stock that are being exchanged at the highest price at which they trade on the Santiago Stock Exchange on the date of the exchange, generally will determine the acquisition value for this purpose. Consequently, the conversion of ADSs into shares of common stock and sale of such shares of common stock for the value established under the deposit agreement will not generate a capital gain subject to taxation in Chile.

The distribution and exercise of preemptive rights relating to the shares of common stock will not be subject to Chilean taxation. Amounts received in exchange for the shares or assignment of preemptive rights relating to the shares will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter to the extent described above).

There is an exemption for the payment of income tax by foreign institutional investors such as mutual funds, pension funds and others, that obtain capital gains in the sales through a Chilean stock exchange, a tender offer or any other system authorized by the Chilean Superintendency of Securities and Insurance, of shares of publicly traded corporations that are significantly traded in stock exchanges. The Chilean Internal Revenue Service has not enacted any rule nor issued any ruling about the applicability of this regulation to foreign holders of ADSs.

A foreign institutional investor is an entity that is either:

a fund that makes public offers of its shares in a country whose public debt has been rated investment grade by an international risk classification agency qualified by the Chilean Superintendency of Securities and Insurance;

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;

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a fund that holds investments in Chile that represent less than 30.0% of its share value, provided that it proves that no more than 10.0% of its share value is directly or indirectly owned by Chilean residents;

a pension fund that is exclusively formed by individuals that receive their pensions on account of capital accumulated in the fund;

a fund regulated by the Foreign Capital Investment Funds Law, Law No. 18,657, in which case all holders of its shares must reside abroad or be qualified as local institutional investors; or

another kind of institutional foreign investor that complies with the regulatory requirements of the prior report of the Chilean Superintendency of Securities and Insurance and the Chilean Internal Revenue Service.

In order to be entitled to the exemption, foreign institutional investors, during the time in which they operate in Chile, must:

be organized abroad and not be domiciled in Chile;

not participate, directly or indirectly, in the control of the issuers of the securities in which it invests and not hold, directly or indirectly, 10.0% or more of such companies' capital or profits;

execute an agreement in writing with a Chilean bank or securities broker in which the intermediary is responsible for the execution of purchase and sale orders and for the verification, at the time of the respective remittance, that such remittances relate to capital gains that are exempt from income tax in Chile or, if they are subject to income tax, that the applicable withholdings have been made; and

register in a special registry with the Chilean Internal Revenue Service.

Also, the sale or disposition of shares of Chilean public corporations that are significantly traded on stock exchanges is exempted from Chilean taxes on capital gains if the sale or disposition was made:

on a local stock exchange or any other stock exchange authorized by the Chilean Superintendency of Securities and Insurance or in a tender offer process according to Title XXV of the Chilean Securities Market Law, so long as the shares (a) were purchased on a public stock exchange or in a tender offer process pursuant to Title XXV of the Chilean Securities Market Law, (b) are newly issued shares issued in a capital increase of the corporation, or (c) were the result of the exchange of convertible bonds (in which case the conversion price is considered to be the price of the shares). In this case, gains exempted from Chilean taxes shall be calculated using the criteria set forth in the Chilean Income Tax Law; or

within 90 days after the shares would have ceased to be traded in specified volumes on a stock exchange. In such case, the gains exempted from Chilean taxes on capital gains will be up to the average price per share of the last 90 days. Any gains above the average price will be subject to the first category tax.

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Capital gains subject to taxation in Chile may be generated in the case where the sale of the shares is made on a day other than the date in which the exchange is recorded. On October 1, 1999, the Chilean Internal Revenue Service issued Ruling No. 3708, allowing Chilean issuers of ADSs to amend the deposit agreements to which they are parties in order to include a clause that states that, in the case that the exchanged shares are sold by the ADSs holders in a Chilean stock exchange, either on the same day in which the exchange is recorded in the shareholders registry of the issuer or within the two prior business days to such date, the acquisition price of such exchanged shares shall be the price registered in the invoice issued by the stock broker that participated in the sale transaction. Consequently, should we include this clause in the deposit agreement, the capital gain that may be generated if the exchange date is different than the date in which the shares received in exchange for ADSs were sold, will not be subject to taxation.

### ***Other Chilean Taxes***

No Chilean inheritance, gift or succession taxes apply to the transfer or disposition of the ADSs by a foreign holder but such taxes generally will apply to the transfer at death or by a gift of shares of common stock by a foreign holder. No Chilean stamp, issue, registration or similar taxes or duties apply to foreign holders of ADSs or shares of common stock.

### **United States Federal Income Tax Considerations**

The following discussion summarizes the principal U.S. federal income tax considerations relevant to an investment in the ADSs or shares of common stock by a holder that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise will be subject to U.S. federal income tax on a net income basis in respect of the ADSs or shares of common stock, who is referred to as a U.S. holder, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase ADSs or shares of common stock. In particular, this discussion is directed only to U.S. holders that will hold ADSs or shares of common stock as capital assets and that have the U.S. dollar as their functional currency, and does not address the tax treatment of U.S. holders that are subject to special tax rules, such as banks, dealers in securities or currencies, regulated investment companies, real estate investment trusts, traders in securities electing to mark to market, financial institutions, insurance companies, tax-exempt entities, holders of 10% or more of our voting shares, certain short-term holders of ADSs or shares of common stock, persons holding ADSs or shares of common stock as a position in a straddle or conversion transaction, or as part of a synthetic security or other integrated financial transaction. Prospective purchasers who are U.S. holders are advised to consult their own tax advisors as to the overall United States federal, state and local tax consequences of their ownership of ADSs and the underlying shares of common stock.

The statements of United States tax laws set out below are based on the laws in force as of the date of this annual report and may be subject to any changes in United States law occurring after such date, including changes that may have retroactive effect.

### ***ADRs***

In general, U.S. holders of ADRs evidencing ADSs will be treated, for United States federal income tax purposes, as the beneficial owners of the underlying shares of common stock that are represented by those ADSs and evidenced by those ADRs.

### ***Cash Dividends and Other Distributions***

The gross amount of cash dividends paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) with respect to the shares of common stock or ADSs, including the net amount of the Chilean withholding tax withheld on the distribution (after taking into account the credit for the first category tax), will be includable in the gross income of a U.S. holder as foreign source dividend income on the day the dividends are received by the U.S. holder, in the case of shares of common stock, or by the depository, in the case of shares of common stock represented by ADSs, and will not be

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eligible for the dividends-received deduction allowed to corporations under the Internal Revenue Code of 1986, as currently in force. Dividends paid in Chilean pesos will be includable in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day they are received by the U.S. holder, in the case of shares of common stock, or the depository, in the case of shares of common stock represented by ADSs. U.S. holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any Chilean pesos received that are converted into U.S. dollars on a date subsequent to receipt.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid a passive foreign investment company, or PFIC. The ADSs are listed on the NYSE and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2008 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2009 taxable year.

Based on existing guidance, it is not entirely clear whether dividends received with respect to the common stock will be treated as qualified dividends, because the common stock is not itself listed on a U.S. exchange. In addition, the U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or common stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of ADSs and common stock should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

The Chilean withholding tax (after taking into account the credit for the first category tax) will be treated as a foreign income tax that a U.S. holder may elect to deduct in computing its income tax or, subject to generally applicable limitations and conditions under the Internal Revenue Code, to credit against its U.S. federal income tax liability. For purposes of calculating the foreign tax credits, dividends paid on the common stock or ADSs will generally constitute foreign source passive income for U.S. tax purposes. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial. U.S. holders should consult their own advisors concerning the implications of these rules in light of their particular circumstances.

Distributions of additional shares of common stock (or rights to subscribe for shares of common stock) to U.S. holders with respect to the ADSs or shares of common stock that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

A non-U.S. holder, *i.e.*, a holder of shares of common stock or ADSs that is a nonresident alien individual or a foreign corporation generally will not be subject to U.S. federal income or withholding tax on dividends received on shares of common stock or ADSs, unless that income is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States.

***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.

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Gains realized by a U.S. holder on a sale or other disposition of ADSs or shares of common stock generally will be treated as U.S. source income. Because a U.S. holder generally may not use a foreign tax credit to reduce its U.S. federal income tax liability in respect of its U.S. source income, in the case of a disposition of shares of common stock (which, unlike a disposition of ADSs, would be taxable in Chile), the U.S. holder generally would not be able to utilize foreign tax credits in respect of any Chilean tax imposed on such a disposition unless such holder has other income from foreign sources, in the appropriate category, for purposes of the foreign tax credit limitation rules. U.S. holders should consult their tax advisors regarding the application of the foreign tax credit limitation rules to their investment in, and disposition of, the ADSs and shares of common stock.

Deposits and withdrawals of shares of common stock by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

A non-U.S. holder of shares of common stock or ADSs will not be subject to U.S. federal income or withholding tax on gain realized on the sale of shares of common stock or ADSs, unless (1) such gain is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States or (2) in the case of gain realized by an individual non-U.S. holder, the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

***Backup Withholding and Information Reporting***

In general, dividends paid to a U.S. holder and proceeds from a disposition of the ADSs or shares of common stock will be subject to information reporting requirements and the payments may be subject to U.S. backup withholding tax if the U.S. holder does not provide a taxpayer identification number or otherwise establish an exemption. Under certain circumstances, such payments made to a non-U.S. holder also may be subject to U.S. information reporting requirements and U.S. backup withholding tax, unless the holder certifies its non-U.S. status or otherwise establishes an exemption.

The foregoing discussion of Chilean and United States tax considerations is intended only to provide a general description of the principal relevant factors. The discussion is not intended as tax advice to any particular investor, which advice can be rendered only in light of that investor's particular tax situation. Investors should consult their tax advisors about the federal, state, local and foreign tax consequences to them of the purchase, ownership and disposition of ADSs or shares of common stock.

Also, the sale or disposition of shares of Chilean public corporations that are significantly traded on stock exchanges is exempted from Chilean taxes on capital gains if the sale or disposition was made:

on a local stock exchange or any other stock exchange authorized by the Chilean Superintendency of Securities and Insurance or in a tender offer process according to Title XXV of the Chilean Securities Market Law, so long as the shares (a) were purchased on a public stock exchange or in a tender offer process pursuant to Title XXV of the Chilean Securities Market Law, (b) are newly issued shares issued in a capital increase of the corporation, or (c) were the result of the exchange of convertible bonds (in which case the conversion price is considered to be the price of the shares). In this case, gains exempted from Chilean taxes shall be calculated using the criteria set forth in the Chilean Income Tax Law; or

within 90 days after the shares would have ceased to be traded in specified volumes on a stock exchange. In such case, the gains exempted from Chilean taxes on capital gains will be up to the average price per share of the last 90 days. Any gains above the average price will be subject to the first category tax.

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Capital gains subject to taxation in Chile may be generated in the case where the sale of the shares is made on a day other than the date in which the exchange is recorded. On October 1, 1999, the Chilean Internal Revenue Service issued Ruling No. 3708, allowing Chilean issuers of ADSs to amend the deposit agreements to which they are parties in order to include a clause that states that, in the case that the exchanged shares are sold by the ADSs holders in a Chilean stock exchange, either on the same day in which the exchange is recorded in the shareholders registry of the issuer or within the two prior business days to such date, the acquisition price of such exchanged shares shall be the price registered in the invoice issued by the stock broker that participated in the sale transaction. Consequently, should we include this clause in the deposit agreement, the capital gain that may be generated if the exchange date is different than the date in which the shares received in exchange for ADSs were sold, will not be subject to taxation.

***Other Chilean Taxes***

No Chilean inheritance, gift or succession taxes apply to the transfer or disposition of the ADSs by a foreign holder but such taxes generally will apply to the transfer at death or by a gift of shares of common stock by a foreign holder. No Chilean stamp, issue, registration or similar taxes or duties apply to foreign holders of ADSs or shares of common stock.

**DOCUMENTS ON DISPLAY**

The materials included in this annual report on Form 20-F, and exhibits thereto, may be inspected and copied at the Securities and Exchange Commission's public reference room in Washington, D.C. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. The Securities and Exchange Commission maintains a World Wide Web site on the Internet at <http://www.sec.gov> that contains reports and information statements and other information regarding us. The reports and information statements and other information about us can be downloaded from the Securities and Exchange Commission's website.

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### **Item 11. Quantitative and Qualitative Disclosures About Market Risk Background**

The bank is exposed to market risks, such as price and liquidity risks, due to unmatched positions in both our trading and accrual portfolios.

The trading portfolio is comprised of the following: foreign exchange positions, local government bonds, time deposits holdings and the derivatives book. The latter is mainly comprised of FX forwards and swap transactions, a small number of FX options, bond forwards and FX futures transactions.

Cash balances that are not included in the trading portfolio are part of the accrual portfolio. The primary liability balances are: retail and corporate deposits (both DDA and time deposits); mortgage bonds (asset-backed securities matching mortgage loans); interbank borrowing, including trade-related facilities; and bonds issued for liquidity and interest rate hedging purposes. Asset balances include: corporate loans and trade facilities; consumer loans (including mortgage loans and cards activity); available-for-sale bonds holdings; interbank lending; trade loans; and all other asset balances such as fixed assets and accrued interests.

Accrual balances are mainly denominated in Ch\$ and CLF terms (daily Chilean inflation index, which is published and computed by the Central Bank of Chile reflecting the previous month's local inflation), though some trade-related transactions are denominated in U.S. dollars ( U.S.\$ ) and Japanese yen ( JPY ). Trading transactions are mainly denominated in Ch\$, CLF and domestic U.S.\$, with some transactions linked to offshore hard currencies yield curves.

### **Market Risk**

Market risk is usually classified into two categories: price risk and liquidity risk. Price risk refers to the potential loss arising from unfavorable directional market movements of interest rates; FX rates or volatility levels, including the correlation among these market factors fluctuations. Liquidity risk refers to the inability to obtain funding (Funding Liquidity risk) or to the potential material impact of defeasing assets (Trading Liquidity risk). The following sections quantify the potential impact of these risks.

#### ***Price risk***

#### ***Interest rate risk***

We are exposed to interest rate risk in both the accrual and the trading portfolios. With respect to the trading portfolio, interest rate risk is the adverse change in the value of the portfolio due to the potential unfavorable fluctuations of interest rates.

Given the general accounting principles in place for trading portfolios, actual change in the value of this portfolio instantaneously impacts the Statement of Income.

In the case of the accrual portfolio, interest rate risk arises from holding assets and liabilities with different repricing tenors. However, actual adverse changes of interest rates impact the Statement of Income when assets/liabilities are effectively repriced and not when interest rates change.

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### ***FX rate risk***

We are exposed to FX rate risk given that we hold, for some specific currencies, unmatched balances. For FX positions calculation purposes, we aggregate all cash balance items and the net present value of off-balance cash flows we receive and pay in the future. Cash balance items are marked to prevailing FX rates regardless of whether the transaction itself is booked under trading or accrual accounting rules. Therefore, the difference in value of any cash balance item due to the change of any FX rate is reported in the Statement of Income.

We usually hold Ch\$ positions against the U.S.\$ and, to a lesser extent, Brazilian real, JPY and Euro positions against the U.S.\$. Other FX positions are seldom significant.

### ***Volatility risk***

We are exposed to FX volatility (Ch\$/U.S.\$ volatility only) given that we hold an FX Options portfolio (short-term and plain vanilla transactions only). In addition to this, we are exposed (economically but not from an accounting standpoint) to interest rate volatility due to the holding of mortgage CLF loans for which the interest rate for the customer is capped. In any case, cap rates are currently deep OTM.

### ***Liquidity risk***

#### ***Funding Liquidity risk***

Usually, our funding profile shows shorter tenors than those observed for our assets. Therefore, we are exposed to funding liquidity risk only in the event that our assets are not liquid enough to defease them in the corresponding secondary markets and the renewal of the funding is compulsory. The Bank is able to mitigate any contingency in this respect by diversifying its fund providers and by avoiding maturity concentration.

#### ***Trading Liquidity risk***

We are exposed to trading liquidity risk whenever our loans may not be easily sold, or bonds not easily traded, in the secondary market. This may occur for a significant portion of our loans portfolio (however, a large stake of our mortgage loan portfolio is fully matched with asset-back securities issued by the Bank) since sale transactions involving loans are rare. Additionally, some of our holdings of corporate bonds, mortgage bonds and foreign Latin American bonds are exposed to a shallow secondary market.

### **The Price Risk Process**

This process is segregated in the following steps:

Identification of the Treasury and non-Treasury transactions that may impact the P&L performance of the Treasury. The latter impact the Treasury P&L through a Transfer Pricing process.

Identification of the transactions categorized as trading transactions. The change of value due to changes in the market factors, within any interval of time, directly impacts the statement of comprehensive income. Conversely, those which are categorized as accrual transactions impact the State of Income according to their historical cost.

Identification of the market factors, such as FX rates, interest rates/yields or volatilities, involved in the above mentioned transaction.

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Distribution of the exposures generated by the positions held in the various market factors within the different Treasury desks or risk-taking units. The distribution is made taking into account the nature of the business (trading or accrual) but also subject to generally accepted accounting principles (derivatives always booked in trading accounts unless hedge-accounting programs are implemented, loans always booked in accrual accounts, etc.).

Setting process for each desk of exposures limits and actual/potential loss triggers. These are aligned with the budgeted revenues for the corresponding desk. This ensures that limits/triggers are set according to a risk/return rationale.

A strict and disciplined risk monitoring and reporting process, ensuring that the different relevant parties within the organization have a timely sense of the risks undertaken by the Treasury desks

These limits are reviewed at least annually by the Country Asset Liability Committee ( ALCO ) and approved by the Board of the Bank.

The Chairman of the Board and three other members of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, the Market Risk Manager, the Treasurer/Trading Head and the Corporate Credit Risk Head participate in the ALCO. The ALCO recommends price risk limits to the board for approval based on business strategy analysis, expected market volatility, trading liquidity of the products involved, management experience and our overall risk tolerance.

The frequency of monitoring and reporting the different exposures to market risks is based on the nature of each business. Price risk generated by the trading portfolio is monitored and reported on a daily basis. The reporting includes the regulatory price risk, its evolution across time, and risk concentrations by market factors and business units. This report is submitted on a daily basis to relevant Treasury officers and the Market Risk Manager, and to other members of the ALCO.

Price risk generated by accrual activities is monitored and reported on a monthly basis. The report includes interest rate risk exposure in Ch\$, CLF and foreign currencies and is distributed to the same parties mentioned in the previous paragraph.

### **The Liquidity Risk Process**

This process is segregated in the following steps:

Generation of a behavioral cash-flow report, separated by currency, in order to estimate the cumulative outflow within the coming 1-month and 3-month period. This report includes the following main characteristics, among others:

Identification of the balances subject to be modeled under behavioral assumptions (this must be authorized by the Chilean banking regulatory entity).

Development of internal models that reliably reflect the behavior of time deposit balances, demand deposit accounts, etc., across time. Depending on the result, some portion of these balances may be modeled as stable or evergreen.

Development of internal models that reliably reflect the behavior of the loans, particularly focused on discovering the portion that may be considered not subject to renewal. Taking into account the size of the business for the bank, this analysis is made assuming a high level of confidence. Depending on the result, some portion of these balances may be modeled as a source of liquidity at the maturity date.

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Generation of additional reports that limit the funding concentration by either large fund providers or by maturity date  
Liquidity risk is monitored and reported on a daily basis.

### **The Role of the Market Risk Management unit**

The main responsibilities and duties of this unit include, among others:

Definition of internal (non-regulatory) market risk models;

Definitions of FX, interest rate and FX volatility positions reports;

Daily generation of regulatory accrual and liquidity risk reports;

Monthly generation of internal accrual risk report, based on gaps and Earnings at Risk analysis;

Daily internal price risks monitoring, including position limits, P&L and stress test triggers, and the generation of the corresponding limits excesses and triggers breach reports. The exposures and risks are checked against limits and/or triggers, the breaches and excesses are reported to the appropriate levels in a timely manner and the policy exceptions are managed;

Daily price and liquidity risk monitoring for regulatory models;

Definition and reporting of the price and liquidity stress tests;

Participation in the Transaction Valuation definitions, which is a task lead by the Product Control unit (this unit is a part of the Financial Control area; see below for details), in order to ensure that they are aligned with the risk reports linked to the corresponding transactions;

Participation in the Transfer Pricing definitions, which are the framework for regulating the way interest rates are transfer-priced from the Treasury to other units within the bank for the accrual business. These definitions must be aligned with the risk reports linked to the corresponding transactions;

Preparation of an adequate set of internal Price and Liquidity risk limits/triggers structure (in addition to those required by the local regulators) and the submission of the corresponding proposal to the ALCO;

Approval of the debt securities eligible list for trading portfolios;

Participation in the definition of the hedge-accounting programs, ensuring comprehensive alignment with market risk reporting;

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Establishment and review of market risk policies and procedures;

Involvement in the development and release of new products, identifying new market factors and defining the risk aggregation process; and

Generation and maintenance of credit risk factors for derivative transactions.

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The Market Risk Management unit is responsible for reporting to the relevant Treasury units about the state of all risk limits in a timely fashion. In addition, the Treasury units and senior ALCO members are notified whenever a limit is exceeded.

Limit excesses are not permitted unless operational errors have occurred. If any risk limit is exceeded, the responsible Treasury unit must document the causes of the excess and it may require a permanent limit increase only after curing the excess. Temporary limit increases may be requested but such requests must be made prior to entering into any transactions that may generate excesses.

Limits are reviewed and approved annually unless market conditions or a business activity increase requires increased limits (in such a case, a risk-return analysis is implemented, taking the current conditions into consideration).

### **The Role of the Product Control Unit**

This unit, which resides in the Financial Control area, supports the business and the Market Risk Management unit implementing the following tasks, among others:

Daily generation of regulatory trading risk reports;

Daily generation of trading positions for internal risk reporting purposes (DV01 for interest rate positions; FX delta for FX positions and vega for FX options positions);

Daily price verification process, in which prices, interest rates, derivatives yields, FX volatilities, etc. which have been previously inputted by the business for valuing portfolios are independently checked against public sources or internal price generation models;

Daily generation and maintenance of the market data set, which is used for valuing portfolios, valuing individual derivative transactions for credit risk purposes, etc.;

Fair Value Policy definition;

Daily P&L generation for trading portfolios, which are used for monitoring the state of the month-to-date P&L triggers;

Generation of interest rate regulatory reports;

Participation in the definition of the hedge-accounting programs and effectiveness modeling.

Effectiveness control for the hedge-accounting programs.

The main advantage of having this unit be part of the Financial Control area is to ensure data integrity for risk and positions reports. In fact, the data used for internal reporting purposes is reconciled with intra-month accounting records.

Moreover, the addition of the daily intra-month trading P&L estimated by this unit is reconciled with the end-of-month P&L obtained from the accounting records. This reconciliation process allows measuring granularity of the daily reports.



**Table of Contents****Market Risk: Measurement and Reporting*****Price Risk of the Trading Portfolio***

We establish, for the trading portfolio: (a) positions limits, (b) triggers for actual month-to-date P&L (look back analysis), (c) triggers for potential losses (look forward analysis) and (d) regulatory price risk portfolio limit (mandatory). Potential losses are estimated utilizing two tools: VaR (95% confidence level) and directional stress tests. The reason why price risks are controlled by triggers rather than by limits is based on the fact that price risk depends on both position and volatilities/correlations. The traders may not control the latter and therefore it is possible that no limit would be established for a given variable that is not under our discretion.

Positions are expressed as the Greek letters embedded in any trading transaction. FX positions are expressed as the FX delta; interest rate positions as the rho (or also known as DV01 which is the change in value of the transaction due to 1 bp interest rate rise) and vega (which is the change in value of the transaction due to 1% FX volatility rise). The ALCO recommends risk limits for each market factor, which are approved by the Board of Directors if applicable.

Trading portfolios are subject to a close watching process in terms of P&L performance. In fact, daily performance is estimated allowing the determination of the month-to-date P&L for each trading desk. The result is compared with Stress Loss Triggers in order to alert the senior management in the case of abrupt unexpected losses.

We are in the process of developing a reliable parametric VaR. This will be computed utilizing a 95% confidence and historical volatilities of fluctuations of market factors and historical correlations among them. It is very likely that Risk Metrics will be the tool for computing parametric VaR and back testing.

As mentioned above, stress tests are made on a daily basis. Currently, four scenarios are modeled daily. Two of them reflect an adverse economic environment, one of which is referred to as mild stress and the other as meltdown stress. Mild stress is the result of an adverse fluctuation equal to 3.43 standard deviation of the market factors historical fluctuations. Meltdown stress is the result of an adverse fluctuation equal to 8 standard deviations. The other two scenarios reflect a positive economic environment, including positive fluctuations equivalent to 3.43 and 8 standard deviation. Stress tests under a positive economic scenario are made since the bank may be exposed to losses even in the case that market factors fluctuate in a positive direction (for example, the bank may hold a long U.S.\$ position against CLP and would take a loss as the result of an appreciation of the CLP against the U.S.\$).

The standard deviation for all market factors is computed as the standard deviation of a set of historical daily returns, assuming that the returns of the FX rates follow a lognormal distribution and the returns of the interest rates and volatilities follow a normal distribution. Therefore, the daily return for the FX rate between day  $i$  and day  $i+1$  is computed as  $\ln S_{i+1}/S_i$ , with  $S_i$  being the closing FX spot rate observed on any day  $i$ . In the case of interest rates and volatilities, the daily return is computed as the difference between the observation on day  $i+1$  and day  $i$ .

A regulatory price risk report is also generated on a daily basis. The regulatory report is based on the Market Risk Basel model, which includes embedded fixed and also large volatilities for the market factors fluctuations and fixed correlations, regardless of their actual behavior along the time. Therefore, it is more likely a stress test. In any case, it helps to follow the tendency and the evolution of the various risks generated by the trading portfolios.

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The following figure illustrates the pattern of the trading book price risk, utilizing the regulatory model, during 2008:

The following table summarizes by derivative type the notional outstanding of the derivatives portfolio as of December 31st, 2008:

	<b>At December 31, 2008</b>	
	<b>Notional Amount</b>	
	<b>(in millions of constant Ch\$ as of December 31, 2008)</b>	
Currency forwards	Ch\$	11,151,944
Interest rate swaps		12,549,122
Currency and rate swaps		3,382,880
Options		683,494
<b>Total</b>	<b>Ch\$</b>	<b>27,767,440</b>

***Price Risk of the Accrual Portfolio***

The ALCO guidelines for the Accrual portfolio seek to protect the net revenues from funds (NRFF) on a pre-tax basis and the value of equity due to unexpected interest rate fluctuations. In order to achieve this purpose, a set of limits are jointly proposed by the business and Market Risk Management and approved, if applicable, by the Board of Directors.

Accrual interest rate risk or repricing risk arises from unfavorable fluctuations of either interest rates or the shape of the yield curves. Whenever balance sheet items held in the accrual portfolio include unmatched repricing tenors, the bank may be negatively impacted in the generating of net interest income.

The risk is estimated through the regulatory model, which includes standardized interest rate fluctuations and pre-defined tenor buckets. This model is based on the Basel accrual interest rate risk tables. Cash flows are separated by currency and loaded into the tenor buckets considering their repricing tenors. The difference between liability and asset items within given tenor buckets is referred as to the interest rate gap for each specific tenor bucket. A positive gap usually leads to a positive effect on the net interest revenue due to a rise in interest rates and vice versa.

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We currently control the interest rate risk for the accrual portfolio, on an aggregate basis (all currencies) and on month-end only, which is in line with the local regulator's requirements. The Superintendency of Banks has also defined that two limits are to be observed and complied with:

The short-term interest rate risk plus the estimated negative impact of fees collection due to the interest rate rise may not exceed a percentage of the 12-month rolling net interest rate revenues plus the net fees that are sensitive to interest rates (and which were actually charged within the prior 12 months). The regulator allows banks to set this percentage. In our case, the limit is 25%.

The long-term interest rate risk may not exceed a percentage of the equity. The latter is the addition of capital, subordinated debt and retained earnings. The regulator allows banks to set the percentage. In our case, the limit is 25%.

Transactional balance sheet items (excluding debt securities classified as trading instruments) and hedge-accounted derivatives are part of this portfolio. Fixed assets, other assets and equity items are excluded from the analysis.

The Treasury is the unique area within the bank responsible for managing the interest rate gaps and therefore for holding interest rate risks. Additionally, the Treasury, in conjunction with Market Risk Management and Financial Control, is also responsible for proposing the internal transfer-pricing framework and then matching the schedule with the rest of the business units of the bank. The referred process is actually implemented through closing pseudo-transactions with non-Treasury business areas in order to leave the latter without interest rate exposures.

The Treasury usually holds a structural negative CLF full-life gap due to the placement of long-tenor loans and the holding of AFS portfolios, which are funded by short-tenor time deposits (less than two years). However, bonds and subordinated bonds denominated in CLF are issued from time to time in order to reduce the interest rate exposure and to manage the liquidity profile and the capital ratio within adequate ranges.

Tenors involved in transactions denominated in CLP are much shorter than in CLF terms; in fact, repricing tenors for CLP loans are not longer than two years since banks are not able to issue deposits or bonds to longer tenors. This is due to the low demand by institutional investors to hold CLP assets given that debt instruments denominated in CLP are exposed to negative real yields in the case of a high inflation environment. This is especially sensitive in the case of pension funds since Chilean workers are expecting a positive real yield for retirement. Therefore, interest rate gaps are not relevant for tenors longer than two years with the exception of the impact generated by DDAs. DDAs are modeled as a balance item considering permanent-maturity profiles. Volatile portions of DDAs are modeled in the shorter tenor buckets and stable portion are included in the back end of the tenor buckets framework (4-5 year tenor bucket). As a result of this modeling process, the CLP interest rate gap is usually negative for tenors shorter than three years and positive beyond that tenor.

The activity in the accrual U.S.\$ book is mostly based on funding obtained from foreign banks (mostly U.S.\$ denominated), which is placed through trade loans within the customer base. Additionally, DDAs and the U.S.\$ 200 MM 10-year bullet subordinated bond issued by the bank in 2006 are other large balance sheet items and part of this book. The modeling process followed for DDAs, similar to that used for CLP DDAs, and the long tenor of the outstanding bonds generate a positive interest rate gap for this book.

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The pattern followed by the two metrics mentioned above during 2008 is illustrated below:

Stress tests for the Accrual book are made on a semi-annual basis. For this process, market factor fluctuations used are consistent with those utilized for the stress test of the trading portfolio. Additionally, the bank is in the process of reviewing the Price Risk policy for accrual portfolios. Monthly monitoring will therefore be in place shortly once policies are approved.

The following table summarizes the balance sheet structure of the bank classified by currency, as of December 31st, 2008:

**Balance Sheet Structure**

	As of December 31, 2008				Percentage
	Ch\$	UF	Foreign Currency <sup>(1)</sup>	Total	
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
<b>Assets<sup>(2)</sup>:</b>					
Cash and due from banks	Ch\$ 370,405		Ch\$ 380,818	Ch\$ 751,223	4.4%
<b>Other assets<sup>(1)</sup></b>					
Less than one year	4,719,864	1,425,592	1,881,868	8,027,324	46.5
From one to three years	1,201,298	1,259,937	239,417	2,700,652	15.6
More than three years	1,170,339	3,688,494	210,989	5,069,822	29.3
<b>Total financial assets</b>	<b>Ch\$ 7,461,906</b>	<b>Ch\$ 6,374,023</b>	<b>Ch\$ 2,713,092</b>	<b>Ch\$ 16,549,021</b>	<b>95.8%</b>
Other	463,385	4,174	217,593	685,152	4.0
Derivative operations	14,309	386	27,231	41,926	0.2
Bank premises and equipment	205,369			205,369	1.2
Investment in other companies	11,374		3	11,377	0.1
Allowance for loan losses	(227,201)			(227,201)	(1.3)
<b>Total assets</b>	<b>Ch\$ 7,929,142</b>	<b>Ch\$ 6,378,583</b>	<b>Ch\$ 2,957,919</b>	<b>Ch\$ 17,265,644</b>	<b>100.0%</b>
Percentage of total financial assets by currency	45.09%	38.52%	16.39%	100.00%	
<b>Liabilities and equity<sup>(2)</sup>:</b>					
Non-interest bearing demand deposits	Ch\$ 2,556,682	Ch\$ 12,714	Ch\$ 437,865	Ch\$ 3,007,261	17.4%
<b>Other liabilities<sup>(1)</sup></b>					
Less than one year	4,386,063	2,738,019	3,032,036	10,156,118	58.8
From one to three years	113,603	924,526	181,870	1,219,999	7.1
More than three years	25,000	829,364	155,611	1,009,975	5.9
<b>Total financial liabilities</b>	<b>Ch\$ 7,081,348</b>	<b>Ch\$ 4,504,623</b>	<b>Ch\$ 3,807,382</b>	<b>Ch\$ 15,393,353</b>	<b>89.2%</b>

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	As of December 31, 2008				Percentage
	Ch\$	UF	Foreign Currency <sup>(1)</sup>	Total	
	(in millions of constant Ch\$ as of December 31, 2008, except for percentages)				
Other	446,737	9,684	118,127	574,548	3.3
Equity (less provision for minimum dividends and net income)	1,216,016			1,216,016	7.0
Net income	272,425			272,425	1.6
Provision for minimum dividends	(190,698)			(190,698)	(1.1)
<b>Total liabilities and equity</b>	<b>Ch\$ 8,825,828</b>	<b>Ch\$ 4,514,307</b>	<b>Ch\$ 3,925,509</b>	<b>Ch\$ 17,265,644</b>	<b>100.0%</b>
Percentage of total financial liabilities by currency	46.00%	29.26%	24.73%	100.00%	
Asset/liability gap	Ch\$ (896,686)	Ch\$ 1,864,276	Ch\$ (967,590)		

(1) Includes U.S. dollar indexed balance sheet items which are payable in Chilean pesos.

(2) Derivatives in-the-money (out-of-the money) for the bank are represented as an asset (liability) equivalent to their fair value

**Liquidity Risk****Trading Liquidity Risk**

Trading liquidity risk is very low. In fact, after the merger with the former Citibank, N.A. branch in Chile, the Bank adopted a strict discipline in order to ensure that debt instruments booked under trading accounting rules have a deep secondary trading market. Therefore bank bonds, corporate bonds and mortgage bonds formerly booked under trading accounting rules were reclassified as AFS instruments. Central bank instruments (bonds and bills) and short-term time deposits issued by banks in Chile (either local institutions or local franchises of foreign banks) are currently the only instruments eligible to be booked under trading accounting rules since they have a reasonable liquid secondary market.

In any case, we expect to implement a formal trading liquidity analysis process even for AFS portfolios within year 2009.

**Funding Liquidity Risk**

The funding liquidity risk is controlled through the daily monitoring of various metrics. Expected available funding is estimated utilizing regulatory reports, which allow us to forecast the expected net cashflow by currency for the coming 30 and 90 days. These two reports are daily generated and controlled against regulatory limits, which are that the cumulative outflow for the coming 30 days may not exceed an amount equal to the capital of the bank and the cumulative outflow for the coming 90 days may not exceed an amount equal to two times the capital of the bank.

The reports, according to the regulator's authorization, may include behavioral assumptions for customers' liabilities runoffs, customers overdrafts, and loan repayments. The Bank was instructed by the Chilean Superintendency of Banks to utilize behavioral assumptions.

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The pattern followed for these two metrics during 2008 is the following:

The graphs above show a prudent management of the liquidity of the bank within year 2008. In fact, within the second quarter of 2008, the Treasury decided to increase funding tenors and maintain Cash & Due balance above Ch\$ 1,200,000 million (equivalent to approximately U.S.\$ 2 billion). The latter was executed by maintaining diversified overnight U.S.\$ placements and by holding debt instruments that might be sold under repurchase agreements with the Central bank. This strategy was in place the whole year, and was not relaxed before the second quarter of 2009.

Additionally, there are other metrics defined by the Bank even though they are not required by the regulators to monitor and limit funding diversification. They consist of the following:

- a) Local currency large fund providers may not exceed 42% of local currency current liabilities
  
- b) Foreign currency large fund providers may not exceed 20% of local currency current liabilities
  
- c) The individual local currency s largest fund provider may not exceed 9% of local currency current liabilities
  
- d) The individual foreign currency s largest fund provider may not exceed 14% of foreign currency current liabilities

**Table of Contents**

The status of these metrics within 2008 is illustrated below:

<b>Local Currency Large Fund Providers</b> as a % of Local Currency Current Liabilities (Limit = 42%)	<b>Foreign Currency Large Fund Providers</b> as a % of Foreign Currency Current Liabilities (Limit = 20%)
<b>Individual Currency Large Fund Providers</b> as a % of Local Currency Current Liabilities (Limit = 8%)	<b>Individual Foreign Currency Large Fund Providers</b> as a % of Foreign Currency Current Liabilities (Limit = 4%)

(1) Limit is established as 8%; the 9% is an exception due to one specific large fund provider

(2) Limit is established as 4%; the 14% is an exception due to one specific large fund provider

The graphs above show a prudent approach to this topic. The excess of the Foreign Currency Large Fund Provider's 20% limit was intentionally modified, given that foreign currency funding was preferred over concentration during the fourth quarter of 2008.

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**Derivatives Credit Risk**

We trade derivative transactions in order to meet our customers' needs and to manage our exposures to fluctuations of FX volatility, interest, and FX rates.

We measure the risk of derivative transactions as the maximum expected value within the life of the transaction, under a certain interval of confidence. This is mathematically computed as the mark-to-market value of the transaction (i.e., the replacement cost of the transaction at the time the analysis is made) plus the maximum increase in value within the remaining period until maturity.

We are currently using internal models at inception and regulatory models for the remaining life of the transaction. Internal models are loaded with credit exposure factors calculated through a Montecarlo Simulation approach, considering a 95% confidence interval. Regulatory models follow the same approach but consider benevolent (i.e., more aggressive) credit exposure factors. A migration to measurement by fully internal models is expected to be implemented during 2009.

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**Item 12. Description of Securities Other than Equity Securities**  
Not Applicable.

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**  
None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**  
None.

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**Item 15. Controls and Procedures**

(a) Disclosure Controls and Procedures

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2008.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment and those criteria, management believes that the company maintained effective internal control over financial reporting as of December 31, 2008.

**Table of Contents****(c) Report of Independent Registered Public Accounting Firm on Internal Controls**

Ernst & Young limitada, the independent registered public accounting firm that has audited our financial statements, has issued an attestation report on our internal control over financial reporting as of December 31, 2008. This attestation report appears on page F-3.

**(d) Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during 2008 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 new Code of Ethics, as defined in Item 16B of Form 20-F under the Exchange Act. In 2008, pursuant to the terms of the merger agreement with Citibank Chile, we modified our Code of Ethics to incorporate the key elements of Citigroup's Code of Conduct. The Code of Ethics applies to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and persons performing similar functions, and to all other employees without exception. A current copy of the Code of Ethics is filed as Exhibit 11.1 to this Form 20-F.

**Item 16C. Principal Accountant Fees and Services  
Audit and Non-Audit Fees**

The following table sets forth the fees billed to us by our independent auditors, Ernst & Young Limitada, during the fiscal years ended December 31, 2007 and 2008:

	Year ended December 31, 2007                      2008 (in millions of constant Ch\$ as of December 31, 2008)	
Audit fees	Ch\$ 630	Ch\$ 561
Audit-related fees	2	8
Tax fees	0	0
Other fees	92	16
<b>Total fees</b>	<b>Ch\$ 724</b>	<b>Ch\$ 585</b>

Audit fees in the above table are the aggregate fees billed by Ernst & Young Limitada in connection with the audit of our annual financial statements. This line item includes: (i) reviews and advisory services related to filings with the LSE and the Securities and Exchange Commission, (ii) the statutory audit required by local regulations, and (iii) the audit of the consolidated financial statements required by Item 18 of Form 20-F.

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Audit-related fees in the above table are fees billed by Ernst & Young Limitada for other expenses related to review of our branches in Chile. This includes travel and subsistence expenses for the audit team.

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

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Other fees in the above table are fees billed by Ernst & Young Limitada related to compensation for research studies during 2008, and services rendered in connection with the merger of Legg Mason Chile Mutual Funds with Banchile Mutual Funds.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not Applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

We did not make any purchases of our previously issued shares during the fiscal year ended December 31, 2008.

**Item 16F. Change in Registrant's Certifying Accountant**

Not Applicable.

**Item 16G. Corporate Governance**

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 (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

**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 aspects 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.



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**NYSE Standards**

**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 must satisfy 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*

**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**

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

We are in compliance with Rule 10A-3. The members of our Audit Committee are not required to satisfy

the NYSE independence and other Audit Committee standards that are not prescribed by Rule 10A-3.

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

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

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

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

We have adopted a code of ethics applicable to all of our executive officers, a revised version of which is filed as an exhibit to this Form 20-F. We are required by Item 16B of Form 20-F to disclose any waivers granted to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and persons performing similar functions. Our Code of Ethics sets forth the principles and values that govern personnel conduct as well as other issues such as; conflicts of interests, usage of the privileged information, internal controls for fraud prevention and labor responsibility.

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**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.

**Table of Contents****Item 19. Exhibits****LIST OF EXHIBITS**

<b>Exhibit No.</b>	<b>Exhibit</b>
1.1	<i>Estatutos</i> of Banco de Chile, which serve as our articles of incorporation and bylaws (English translation).
2.1	Form of Deposit agreement among Banco de Chile, JPMorgan Chase Bank as depositary, and the holders from time to time of ADSs (incorporated by reference to our registration statement on Form F-4 (File No. 333-14020) filed on October 18, 2001).
2.2	Form of Foreign Investment Contract among Banco de A. Edwards, Citibank, N.A. and the Central Bank of Chile relating to the foreign exchange treatment of an investment in ADSs, together with an English translation thereof (incorporated by reference to Banco de A. Edwards registration statement on Form F-1 (Registration No. 33-97594) filed on September 29, 1995).
2.3	Amendment to Foreign Investment Contract among Banco de Chile (as successor to Banco de A. Edwards), Morgan Guaranty Trust Company of New York and the Central Bank of Chile, dated January 2, 2002, together with an English translation thereof (filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2001, and incorporated herein by reference).
3.1	Master Joint Venture Agreement between Quiñenco S.A., Citigroup, Inc. and Citibank Overseas Investment Corporation, dated July 19, 2007 (English translation) (filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2007, and incorporated herein by reference).
3.2	Shareholders Agreement between Quiñenco, S.A., Citigroup Chile S.A. and the minority shareholders of LQIF, dated December 27, 2007 (English translation) (filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2007, and incorporated herein by reference).
3.3	Amendment to the Master Joint Venture Agreement between Quiñenco S.A., Citigroup, Inc. and Citibank Overseas Investment Corporation, dated December 19, 2008 (English translation).
4.1	Merger Agreement between Banco de Chile and Citibank Chile, dated December 26, 2007 (English translation) (filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2007, and incorporated herein by reference).
4.2	Cooperation Agreement between Banco de Chile and Citigroup Inc., dated December 27, 2007 (English translation) (filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2007, and incorporated herein by reference).
4.3	Global Connectivity Agreement between Banco de Chile and Citigroup Inc., dated December 27, 2007 (English translation) (filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2007, and incorporated herein by reference).
4.4	Asset Purchase Agreement between Banco de Chile and Citibank, N.A., dated December 31, 2007 (English translation) (filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2007, and incorporated herein by reference).

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- 4.5 Trademark License Agreement between Banco de Chile and Citigroup Inc., dated December 27, 2007 (English translation) (filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2007, and incorporated herein by reference).
- 4.6 First Supplementary Agreement to the Cooperation Agreement between Banco de Chile and Citigroup Inc., dated February 27, 2009 (English translation).
- 4.7 First Supplementary Agreement to the Global Connectivity Agreement between Banco de Chile and Citigroup Inc., dated February 27, 2009 (English translation).
- 4.8 Amendment to the Trademark License Agreement between Banco de Chile and Citigroup Inc., dated February 27, 2009 (English translation).
- 8.1 List of subsidiaries.
- 11.1 Code of Professional Ethics (English translation).
- 12.1 Certification under Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification under Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification under Section 906 of the Sarbanes-Oxley Act of 2002.

Omitted from the exhibits filed with this annual report are certain instruments and agreements with respect to our long-term debt, none of which authorizes securities in a total amount that exceeds 10% of our total assets. We hereby agree to furnish to the Securities and Exchange Commission copies of any such omitted instruments or agreements as the Securities and Exchange Commission requests.

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**SIGNATURE**

The registrant, Banco de Chile, hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**BANCO DE CHILE**

By /s/ Fernando Cañas B.  
Name: Fernando Cañas B.  
Title: Chief Executive Officer

Date: June 29, 2009

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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, 2006 and 2007 consolidated financial statements have been restated for general price-level changes and expressed in constant Chilean pesos of December 31, 2008 purchasing power.

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**Ernst & Young Chile**

Huérfanos 770, piso 5

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[www.ey.com/cl](http://www.ey.com/cl)

**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated statements of financial position of Banco de Chile and its subsidiaries (the Bank) as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in Chile and regulations issued by the Chilean Superintendency of Banks and Financial Institutions, which differ in certain respects from U.S. generally accepted accounting principles (see Note 34 to the consolidated financial statements).

As explained in Note 2(a)(ii), the Bank adopted a new format for presentation of the financial statements, as required by Circular No. 3,410 and all prior periods were also modified for comparison purposes.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 26, 2009, expressed an unqualified opinion thereon.

ERNST & YOUNG LIMITADA

Santiago, Chile,

June 26, 2009



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**Report of Independent Registered Public Accounting Firm**

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

We have audited Banco de Chile and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Banco de Chile's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, Banco de Chile maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2008 consolidated financial statements of Banco de Chile and our report dated June 26, 2009, expressed an unqualified opinion thereon.

ERNST & YOUNG LIMITADA

Santiago, Chile,

June 26, 2009

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2008 and thousands of U.S. dollars)

	NOTE	2007 MCh\$	As of December 31, 2008 MCh\$	2008 ThUS\$ (Note 1 (t))
<b>ASSETS</b>				
Cash and due from banks	3 (a)	405,194	751,223	1,194,104
Transactions in the course of collection	3 (b)	330,978	469,580	746,420
Trading securities	4	1,537,522	679,843	1,080,642
Securities purchased under resale agreement		75,283	75,519	120,041
Derivate instruments	6	88,331	904,726	1,438,105
Loans and advances to Banks	7	303,165	321,992	511,821
Loans to customers, net				
Commercial loans		7,907,873	9,453,444	15,026,696
Residential mortgage loans		2,145,474	2,308,013	3,668,695
Consumer loans		1,475,813	1,887,548	3,000,347
Loans to customers		11,529,160	13,649,005	21,695,738
Allowances for loan losses	9	(146,794)	(227,201)	(361,148)
Total loans to customers, net	8	11,382,366	13,421,804	21,334,590
Available for sale instruments	5		1,071,438	1,703,101
Held to maturity instruments	5			
Investments in other companies	11	8,014	11,377	18,084
Intangible assets	12	27,196	34,763	55,257
Fixed assets	13	183,901	205,369	326,444
Current tax assets	27 (b)			
Deferred tax assets	27 (a)	49,042	70,505	112,071
Other assets	14	160,780	110,303	175,332
<b>TOTAL ASSETS</b>		<b>14,551,772</b>	<b>18,128,442</b>	<b>28,816,012</b>

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2008 and thousands of U.S. dollars)

	NOTE	2007 MCh\$	As of December 31, 2008 MCh\$	2008 ThUS\$ (Note 1 (t))
<b>LIABILITIES</b>				
Current accounts and other demand deposits	15	2,735,681	3,007,261	4,780,183
Transactions in the course of payment	3 (b)	75,801	141,988	225,697
Securities sold under repurchase agreement		386,794	420,658	668,656
Saving accounts and time deposits	16	7,134,228	8,472,590	13,467,581
Derivate instruments	6	130,856	862,799	1,371,460
Borrowings from financial institutions	17	933,631	1,498,549	2,382,014
Debt issued	17	1,760,400	1,900,588	3,021,074
Other financial obligations	17	68,652	93,708	148,953
Current tax liabilities	27 (b)	6,449	9,053	14,390
Deferred tax liabilities	27 (a)	15,927	25,465	40,478
Provisions	19	73,433	290,990	462,542
Other liabilities	14	84,952	107,050	170,161
<b>TOTAL LIABILITIES</b>		<b>13,406,804</b>	<b>16,830,699</b>	<b>26,753,189</b>
<b>EQUITY</b>				
Capital		785,358	1,106,491	1,758,819
Reserves		100,173	118,170	187,836
Other comprehensive income		(4,416)	(16,660)	(26,482)
Retained earnings:				
Retained earnings from previous periods			8,007	12,728
Income for the year		263,852	272,425	433,032
Provisions for minimum dividends			(190,698)	(303,123)
Minority interest in consolidated subsidiaries		1	8	13
<b>TOTAL EQUITY</b>		<b>1,144,968</b>	<b>1,297,743</b>	<b>2,062,823</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>14,551,772</b>	<b>18,128,442</b>	<b>28,816,012</b>

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2008 and thousands of U.S. dollars)

	NOTE	2006 MCh\$	Years ended December 31, 2007 MCh\$	2008 MCh\$	2008 ThUS\$ (Note 1 (t))
<b>A. STATEMENT OF INCOME</b>					
Interest revenue		845,641	1,204,230	1,663,643	2,644,439
Interest expense		(433,561)	(690,463)	(885,104)	(1,406,915)
Net interest revenue		412,080	513,767	778,539	1,237,524
Income from fees and commissions		218,026	238,097	275,899	438,554
Expenses from fees and commissions		(48,361)	(50,324)	(60,035)	(95,428)
Net fees and commissions	23	169,665	187,773	215,864	343,126
Gains (losses) from trading and brokerage activities		99,147	39,442	387,703	616,272
Foreign exchange transactions, net		(12,599)	19,756	(353,012)	(561,129)
Other operating income		29,768	23,942	68,386	108,703
<b>TOTAL OPERATING REVENUES</b>		<b>698,061</b>	<b>784,680</b>	<b>1,097,480</b>	<b>1,744,496</b>
<b>PROVISIONS FOR LOAN LOSSES</b>	9	<b>(42,973)</b>	<b>(56,678)</b>	<b>(138,593)</b>	<b>(220,300)</b>
<b>OPERATING REVENUES, NET OF PROVISIONS FOR LOAN LOSSES</b>		<b>655,088</b>	<b>728,002</b>	<b>958,887</b>	<b>1,524,196</b>
Staff expenses		(182,279)	(207,043)	(306,040)	(486,465)
Administrative expenses		(153,649)	(131,484)	(177,862)	(282,720)
Depreciation and amortization		(23,119)	(25,301)	(35,573)	(56,545)
Impairments					
Other operating expenses		(30,733)	(27,452)	(54,373)	(86,429)
<b>TOTAL OPERATING EXPENSES</b>		<b>(389,780)</b>	<b>(391,280)</b>	<b>(573,848)</b>	<b>(912,159)</b>
<b>NET OPERATING INCOME</b>		<b>265,308</b>	<b>336,722</b>	<b>385,039</b>	<b>612,037</b>
Income attributable to affiliates	11 (a)	1,206	(2,229)	2,987	4,748
Loss from price-level restatement	1 (b)	(9,972)	(41,325)	(77,789)	(123,649)
<b>INCOME BEFORE INCOME TAX</b>		<b>256,542</b>	<b>293,168</b>	<b>310,237</b>	<b>493,136</b>
<b>INCOME TAX</b>	27 (b)	<b>(28,182)</b>	<b>(29,316)</b>	<b>(37,810)</b>	<b>(60,101)</b>
<b>NET INCOME FOR THE YEAR</b>		<b>228,360</b>	<b>263,852</b>	<b>272,427</b>	<b>433,035</b>
Attributable to:					
Equity holders of the parent		228,359	263,852	272,425	433,032
Minority interest		1		2	3
<b>NET INCOME</b>		<b>228,360</b>	<b>263,852</b>	<b>272,427</b>	<b>433,035</b>

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The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2008 and thousands of U.S. dollars)

	Years ended December 31,			
	2006 MCh\$	2007 MCh\$	2008 MCh\$	2008 ThUS\$ (Note 1 (t))
<b>B. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</b>				
<b>NET INCOME FOR THE YEAR</b>	228,360	263,852	272,427	433,035
<b>OTHER COMPREHENSIVE INCOME</b>				
Net unrealized gains (losses) on available for sale investments	(15)	9	(17,291)	(27,485)
Cumulative translation adjustment	380	(2,727)	4,087	6,496
<b>Other comprehensive income before tax</b>	365	(2,718)	(13,204)	(20,989)
Income tax related to other comprehensive income	3	(2)	2,939	4,672
<b>Total other comprehensive income</b>	368	(2,720)	(10,265)	(16,317)
<b>TOTAL CONSOLIDATED COMPREHENSIVE INCOME</b>	<b>228,728</b>	<b>261,132</b>	<b>262,162</b>	<b>416,718</b>
Attributable to:				
Equity holders of the parent	228,727	261,132	262,160	416,715
Minority interest	1		2	3
Comprehensive net income per share attributable to equity holders of the parent:				
Basic net income	Ch\$3.31	Ch\$3.63	Ch\$3.25	US\$0.005
Diluted net income	Ch\$3.31	Ch\$3.63	Ch\$3.25	US\$0.005

The accompanying notes 1 to 35 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, 2008 and thousands of U.S. dollars)

	2006 MCh\$	Years ended December 31,		2008 ThUS\$
		2007 MCh\$	2008 MCh\$	(Note 1 (t))
			(Note 1 (s))	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	228,360	263,852	272,427	433,035
Items that do not represent cash flows:				
Depreciation and amortization	23,119	25,301	35,573	56,545
Provisions for loan losses	75,839	94,928	178,241	283,322
Fair value adjustments of trading securities	(6,937)	5,707	(2,836)	(4,508)
(Income) loss attributable to affiliates	(1,206)	2,229	(2,987)	(4,748)
Net gain on sales of assets received in lieu of payment	(4,374)	(1,532)	(7,570)	(12,033)
Gain on sales of bank premises and equipment	(63)	(454)	118	188
Write-offs of assets received in lieu of payment	13,828	11,965	4,188	6,657
Loss from price-level restatement	9,972	41,325	77,789	123,649
Minority interest	1			
Other credits which do not represent cash flows	18,472	(5,167)	(102,517)	(162,956)
Net changes in interest and fee accruals	29,523	(21,030)	(196,383)	(312,160)
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>386,534</b>	<b>417,124</b>	<b>256,043</b>	<b>406,991</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net increase in loans to customers	(1,215,237)	(1,546,832)	(1,311,853)	(2,085,252)
Net increase in investments	137,438	52,838	(394,015)	(626,305)
Net decrease (increase) in investments purchased under agreements to resell	(69,989)	(164,459)		
Purchases of bank premises and equipment	(25,895)	(28,099)	(16,311)	(25,927)
Proceeds from sales of bank premises and equipment	136	2,578	778	1,237
Investment in other companies		(2,222)	(6,311)	(10,032)
Dividends received from investments in other companies	736	930	1,015	1,613
Sale of investments in other companies	8			
Proceeds from sale of assets received in lieu of payment	10,767	5,187	12,040	19,138
Net changes in other assets and liabilities	(452,256)	(504,339)	(38,685)	(61,492)
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(1,614,292)</b>	<b>(2,184,418)</b>	<b>(1,753,342)</b>	<b>(2,787,020)</b>
<b>CASH FLOWS FROM FINANCIAL ACTIVITIES</b>				
Net increase in current accounts	260,508	242,272	129,942	206,549
Net increase in savings accounts and time deposits	1,341,956	717,360	1,003,026	1,594,357
Decrease in other demand or other deposits	118,410	5,273	(19,803)	(31,478)
Net increase (decrease) in investments sold under agreements to repurchase	42,291	(5,286)	27,748	44,107
Net increase (decrease) in short-term foreign borrowings	302,003	(128,913)	214,723	341,312
Increase mortgage finance bonds	59,303	5,532	3,487	5,543
Repayment of mortgage finance bonds	(138,533)	(101,572)	(96,439)	(153,294)
Decrease in other short-term borrowings	(13,206)	17,817	(86,427)	(137,380)
Borrowings from Central Bank (long-term)	524	1,503	470	747
Payments of borrowings from Central Bank (long-term)	(1,191)	(1,845)	(769)	(1,222)

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Proceeds from bond issuances	385,379	248,470	237,784	377,969
Repayment of bond issuances	(13,975)	(41,937)	(21,778)	(34,617)
Long-term foreign borrowings	594,312	680,659	40,970	65,124
Payment of long-term foreign borrowings	(975,921)	(342,493)	(617)	(981)
Other long-term borrowings	1,764	2,050	1,666,427	2,648,864
Payment of other long-term borrowings	(87)	(171)	(1,176,750)	(1,870,500)
Subscription and payment of shares		91,857	17,370	27,610
Dividends paid	(175,122)	(175,777)	(264,463)	(420,376)
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>1,788,415</b>	<b>1,214,799</b>	<b>1,674,901</b>	<b>2,662,334</b>
Effect of price-level restatement on cash and cash equivalent	(23,801)	(70,578)	(89,907)	(142,911)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT</b>	<b>536,856</b>	<b>(623,073)</b>	<b>87,695</b>	<b>139,394</b>
Cash and cash equivalent at beginning of year	1,270,056	1,806,912	1,298,786(*)	2,064,482
<b>CASH AND CASH EQUIVALENT AT END OF YEAR</b>	<b>1,806,912</b>	<b>1,183,839</b>	<b>1,386,481</b>	<b>2,203,876</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
<b>Cash paid during the year for:</b>				
Interest paid	416,742	561,462	810,904	1,288,970
Income taxes paid	41,480	49,863	104,450	166,028

(\*) Balance at January 1, 2008, includes the cash and cash equivalents from Citibank Chile after the merge with Banco de Chile at the same date.

The accompanying notes 1 to 35 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, 2008)

	Number of shares Millions	Paid in share capital MCh\$	Reserves MCh\$	Other comprehensive income, net MCh\$	Retained earnings		Provision for minimum dividends MCh\$	Minority Interest MCh\$	Total Equity MCh\$
					Retained earnings MCh\$	Net Income for the year MCh\$			
Balance as of January 1, 2006	68,079.8	513,084	83,170	(1,871)		180,724		1	775,108
Transfer to retained earnings			10		180,714	(180,724)			
Capitalization of retained earnings (1)	957.8	30,984			(30,984)				
Dividends paid (1)					(149,730)				(149,730)
Adjustment to fair value as result of adoption of Circular 3,345 (2)			960						960
Price level restatement		11,462	1,271						12,733
Valuation adjustment on available for sale securities (*)				(11)					(11)
Cumulative translation adjustment (**)				325					325
Net Income for the year						195,248			195,248
Balance as of December 31, 2006	<b>69,037.6</b>	<b>555,530</b>	<b>85,411</b>	<b>(1,557)</b>		<b>195,248</b>		<b>1</b>	<b>834,633</b>
Balance as of December 31, 2006 restated in constant Chilean pesos as of December 31, 2008		649,740	99,896	(1,821)		228,359		1	976,175
Balance as of January 1, 2007	69,037.6	555,530	85,411	(1,557)		195,248		1	834,633
Transfer to retained earnings			4		195,244	(195,248)			
Capitalization of retained earnings (3)	882.4	33,833			(33,833)				
Dividends paid (3)					(161,411)				(161,411)
Subscription and payment of shares (4)	2,076.1	84,350							84,350
Price-level restatement		47,461	6,570						54,031

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Valuation adjustment on available for sale securities (*)				7				7
Cumulative translation adjustment (**)				(2,505)				(2,505)
Net Income for the year						242,288		242,288
<b>Balance as of December 31, 2007</b>	<b>71,996.1</b>	<b>721,174</b>	<b>91,985</b>	<b>(4,055)</b>		<b>242,288</b>	<b>1</b>	<b>1,051,393</b>
Balance as of December 31, 2007 restated in constant Chilean pesos as of December 31, 2008		785,358	100,173	(4,416)		263,852	1	1,144,968
<b>Balance as of January 1, 2008</b>	<b>71,996.1</b>	<b>721,174</b>	<b>91,985</b>	<b>(4,055)</b>		<b>242,288</b>	<b>1</b>	<b>1,051,393</b>
Capital increase as a result of the merger (5)	8,443.9	277,791	16,678	(2,340)	29,529		9	321,667
Transfer to retained earnings					242,288	(242,288)		
Dividends paid (6)					(264,463)			(264,463)
Subscription and payment of shares (7)	439.9	17,370						17,370
Price level restatement		90,156	9,507		653			100,316
Valuation adjustment on available for sale securities (*)				(14,352)				(14,352)
Cumulative translation adjustment (**)				4,087				4,087
Merger of subsidiaries							(4)	(4)
Net income for the year						272,425	2	272,427
Provision form minimum dividends (8)							(190,698)	(190,698)
<b>Balance as of December 31, 2008</b>	<b>80,879.9</b>	<b>1,106,491</b>	<b>118,170</b>	<b>(16,660)</b>	<b>8,007</b>	<b>272,425</b>	<b>(190,698)</b>	<b>8 1,297,743</b>

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

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**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, 2008)**

- (1) On March 23, 2006, at the Extraordinary Shareholders' Meeting of Banco de Chile, the shareholders agreed to increase the Bank's capital, through the capitalization of 30% of total income for the year 2006. On March 28, 2006, the Central Bank of Chile communicated its decision of opting for the cash payment of all dividends payable to it as creditor of the subordinated debt. Consequently, the amount capitalized was MCh\$30,984 (in historical pesos), through the issuance and distribution of 957.8 million shares. This implied the distribution of a dividend totaling MCh\$149,730 (in historical pesos).
- (2) Relates to the valuation difference generated by the application of Circular No. 3,345, for those financial instruments and derivatives in force as of December 31, 2005.
- (3) On March 22, 2007, the Extraordinary General Shareholders' Meeting agreed to increase its capital through the capitalization of 30% of 2006 net income. On March 26, 2007 the Central Bank of Chile communicated its decision to be paid in cash all the dividends corresponding to it. Consequently, the capitalized amount was Ch\$33,832.8 (historical) through issuance and distribution of 882,459,200 shares. This implied distributing a dividend in the total amount of MCh\$161,411.3 (historical).
- (4) The Extraordinary General Shareholders' Meeting of Banco de Chile, held on May 17, 2007, agreed to increase the Bank's capital in the amount of Ch\$110 thousand million through issuance of 2,516,010,979 cash shares without par value.  
As of December 31, 2007, 2,076,059,351 cash shares have been subscribed and paid amounting MCh\$84,350 (historical).
  
- (5) On January 1, 2008, as a result of the merger between Banco de Chile and Citibank Chile, 8,443,861,140 nominative, ordinary shares with no par value, of the Banco de Chile S series, that were given to the shareholders of Citibank Chile, in the proportion of 8,443.86114 shares of Banco de Chile for each share of Citibank Chile.
- (6) In the Ordinary Shareholders' Meeting held on March 27, 2008, the Bank's shareholders agreed to distribute and pay dividend No. 196 amounting to Ch\$3.359690 per common share of Banco de Chile (Ch\$2,158.14/ADS), with a charge to retained earnings. Shareholders also agreed to distribute and pay a dividend of Ch\$2.626161 per Banco de Chile-S series share with a charge to Citibank Chile retained earnings.
- (7) As agreed by Banco de Chile shareholders at the Extraordinary Shareholders' Meeting held May 17, 2007, during 2008, 439,951,628 were subscribed and fully paid (120,000,000 in March and 319,951,628 in May respectively).
- (8) As indicated in Note 2 (a) on Accounting Changes, the Board of Directors established a minimum dividend distribution policy for 2008 of 70% of net income. Accordingly, the Bank recorded a liability under the line item "provisions" for an amount of MCh\$190,698 against Retained earnings. Until 2007, dividends were recorded when declared.
- (\*) These balances are presented net of the deferred taxes originated from adjustments to the market value of the available for sale securities.
- (\*\*) Relates to the valuation of investments in foreign branches (See Note 1 (u)).

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2008)****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 Superintendency of Banks and Financial Institutions ( SBIF ). 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 in the London Stock Exchange. Banco de Chile 's shares are also listed on the Latinamerican securities market of the Madrid Stock Exchange ( LATIBEX ).

Banco de Chile offers a broad range of banking services to customers, ranging from individuals to large corporations. The services are managed in the following segment for internal reporting purposes: Wholesale Market, Retail Market, Treasury and Subsidiaries. The Bank's subsidiaries provide other services including securities brokerage, mutual fund management, factoring, insurance brokerage, financial advisory and securitization.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Chile and regulations of the Superintendency of Banks. Certain accounting practices applied by the Bank that conform to Chilean GAAP may not conform to generally accepted accounting principles in the United States ( US GAAP ) or International Financial Reporting Standards ( IFRS ). For the convenience of the reader, the consolidated financial statements have been translated into English and certain subtotals and clarifying account descriptions have been added.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. In certain cases generally accepted accounting principles require that assets or liabilities be recorded or disclosed at their fair values. The fair value is the amount at which an asset could be bought or sold or in the case of a liability could be transferred or settled in a current transaction between willing parties, other than in a forced or liquidation sale. Where quoted markets are not available, Banco de Chile has estimated such values based on the best information available, including using modeling and other valuation techniques.

The consolidated financial statements include the financial position and results of operations of Banco de Chile and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidation. The majority-owned subsidiaries of Banco de Chile as of December 31, 2007 and 2008 are as follows:

**Subsidiary**

	Interest Owned %					
	2007			2008		
	Direct	Indirect	Total	Direct	Indirect	Total
Banco de Chile Sucursal Nueva York	100.00		100.00			
Banco de Chile Sucursal Miami	100.00		100.00			
Banchile Trade Services Limited (Hong Kong)	100.00		100.00	100.00		100.00
Banchile Administradora General de Fondos S.A.	99.98	0.02	100.00	99.98	0.02	100.00
Banchile Asesoría Financiera S.A.	99.96		99.96	99.96		99.96
Banchile Corredores de Seguros Ltda.	99.75	0.25	100.00	99.83	0.17	100.00
Banchile Corredores de Bolsa S.A.	99.68	0.32	100.00	99.68	0.32	100.00
Banchile Factoring S.A.	99.75	0.25	100.00	99.75	0.25	100.00
Banchile Securitizadora S.A.	99.00	1.00	100.00	99.00	1.00	100.00
Socofin S.A.	99.00	1.00	100.00	99.00	1.00	100.00

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Promarket S.A.	99.00	1.00	100.00	99.00	1.00	100.00
Citibank Agencia de Valores S.A. (*)				99.90		99.90

(\*) As a result of the merger, Banco de Chile as the legal successor and continuing entity of Citibank Chile, holds title to all of the rights that belong to the corporation Citibank Agencia de Valores S.A. which consequently became subsidiaries of Banco de Chile in accordance with article 70 of the General Banking Law and Chapter 11-6 of the Updated Compilation of Standards.

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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, 2008)**

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

*(a) Basis of presentation (continued)*

For presentation purposes, the merger between Banco de Chile and Citibank Chile was accounted for as a pooling of interest in accordance to Technical Bulletin N° 72 on a prospective basis. Accordingly, financial statements for periods prior to January 1, 2008 are not restated and Banco de Chile is considered to be the continuing entity for legal and accounting purposes.

*(b) Price-level restatement*

The consolidated financial statements are prepared on the basis of general price-level accounting in order to reflect the effect of changes in the purchasing power of the Chilean peso for Banco de Chile and its Chilean subsidiaries during each year. At the end of each reporting period, the consolidated financial statements are stated in terms of the general purchasing power of the Chilean peso using changes in the Chilean consumer price index ( CPI ) as determined by the Chilean National Institute of Statistics as follows:

Non-monetary assets, liabilities, and 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, 2007 have been restated in Chilean pesos of general purchasing power as of December 31, 2008 ( constant pesos ), to reflect changes in the CPI from the financial statement dates to December 31, 2008. 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, 2008, as follows:

Year	Change in Index
2006	7.4%

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2007

8.9%

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.

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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, 2008)****1. Summary of Significant Accounting Policies (continued)***(b) Price-level restatement (continued)*

The values of the CPI used for price-level restatement purposes are as follows:

<b>Year</b>	<b>Index (*)</b>	<b>Change in Index</b>
2006	124.11	2.1%
2007	133.34	7.4%
2008	145.19	8.9%

\* Index as of November 30, of each year under prior month rule described above.

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, 2008.

	<b>Year ended December 31,</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
Equity	(14,892)	(58,840)	(100,316)
Fixed assets	3,439	11,958	16,683
Investment in other companies	163	597	790
Other	1,318	4,960	5,054
<b>Net loss from price-level restatement</b>	<b>(9,972)</b>	<b>(41,325)</b>	<b>(77,789)</b>

*(c) Index-linked assets and liabilities*

Certain of Banco de Chile's interest-bearing assets and liabilities are denominated in index-linked units of account.

The principal index-linked unit used in Chile is the Unidad de Fomento ( UF ), a unit of account, which changes daily to reflect changes in the CPI. The carrying amounts of such assets and liabilities change with the respective changes in the UF and serve to offset the monetary gains or losses from holding such assets and liabilities. As Banco de Chile's UF-denominated assets exceed its UF-denominated liabilities, any increase in

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the Chilean CPI results in a net gain on indexation. Values for the UF are as follows (historical Chilean pesos per UF).

<b>December 31,</b>	<b>Ch\$</b>
2006	18,336.38
2007	19,622.66
2008	21,452.57

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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, 2008)**

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

*(c) Index-linked assets and liabilities (continued)*

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.

Banco de Chile suspends the accrual of interest and readjustments on loans when there is a high risk of unrecoverability or from the first day in which they become overdue. Accrued interest up to the suspension date remains on Banco de Chile's assets and is considered a part of the loan balance when determining the allowance for loan losses.

*(e) Foreign currency and derivative activities*

Banco de Chile and its subsidiaries protect themselves against variations in the foreign exchange market by using forward contracts, currency futures contracts, currency swaps and interest rates swaps. These activities include hedging and treasury operations and help Banco de Chile and its subsidiaries provide financial products to their clients.

Financial derivative contracts, which include foreign currency and U.F. forwards, interest rate forwards, currency and interest rate swaps, currency and interest rate options and other financial derivative instruments, are recorded in the balance sheet at cost (including transaction costs) at inception and subsequently measured at their fair value. The fair value is obtained from market quotes, discounted cash flows models and options valuation models, as and where applicable. Derivative contracts are reported as an asset when their fair value is positive and as a liability when negative under the line item *Derivative instruments*.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risk and characteristics are not closely related to those of the main contract and this contract is not recorded at its fair value with its unrealized gains and losses included in income.

At inception, a derivative contract must be designated by the Bank as a derivative instrument for investing or hedging purpose.

Changes in the fair value of derivative contracts maintained for investing purpose are included under *Gains (losses) from trading activities* in the Consolidated Statement of Income.

Should a derivative instrument be classified as a hedge, it can be: (1) a hedge of the fair value of existing assets or liabilities or firm commitments, or (2) a hedge of cash flows related to existing assets or liabilities or forecasted transactions. A hedge relationship for hedge accounting purpose must comply with all of the following conditions: (a) at the inception, the hedge relationship has been formally documented; (b) it is expected that the hedge would be highly effective; (c) the effectiveness of the hedge can be measured in a reasonable manner; and (d) the hedge is highly effective with respect to the hedged risk on an ongoing basis and throughout the entire hedge relationship.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2008)**

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

*(e) Foreign currency and derivative activities (continued)*

Certain derivatives transactions which do not qualify for hedge accounting are treated and reported as derivatives for investing purposes even though they provide an effective hedge on the risk of net positions.

When a derivative instrument hedges the risk of changes in the fair value of an existing asset or liability, the hedged asset or liability is recorded at its fair value with respect to the specific hedged risk. Gains or losses from fair value adjustments, both the hedged item and the derivative instrument, are recognized in income.

Should the hedged item in a fair value hedge be a firm commitment, changes in the fair value of the commitment with respect to the hedged risk are recorded as an asset or liability against net income for the year. Gains or losses from fair value adjustments of the hedging derivative are recorded in income. When an asset or liability is acquired as a result of the commitment, the initial recognition of the asset or liability acquired is adjusted to incorporate the accumulated effect of the valuation at fair value of the firm commitment which was previously recorded in the balance sheet.

When a derivative hedges the risk of changes in the cash flows of existing assets or liabilities or forecasted transactions, the effective portion of changes in the fair value related to the hedged risk is recorded in equity net of taxes. Any ineffective portion is directly recorded in income. The accumulated amounts recorded in equity are transferred to income at the moment that the hedge item affects income.

When an interest rate fair value hedge is performed on a portfolio basis and the hedged item is an amount instead of individualized assets or liabilities, gains or losses from fair value adjustments, both the hedged portfolio and the derivative instrument, are recorded in income but the fair value adjustment of the hedged portfolio is reported in the balance sheet under *Other assets* or *Other liabilities*, according to the position of the portfolio hedged at a moment in time.

*(f) Trading securities:*

Trading securities are securities acquired having the intention of generating profits as result of short-term prices fluctuation or as result of brokerage activities, or are part of a portfolio on which a short-term profit generating pattern exists.

Trading securities are stated at their fair market value as of the balance sheet date. Gains or losses from their fair market value adjustments, as well as gains or losses from trading activities, are included in *Gains (losses) from trading activities* in the Consolidated Statement of Income. Accrued interest and readjustments are reported as *Interest revenue*.

All purchases and sales of trading securities that must be delivered within the period established by market regulations or conventions are recorded using the trade date, which is the date on which the purchase or sale of the asset is committed. Any other purchase or sale is treated as a derivative (forward) until liquidation occurs.

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2008)**

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

*(g) Investments held to maturity and available for sale securities:*

Investments held to maturity include only those securities for which the Bank has the ability and intention of keep them until maturity. The remaining investments are considered as available for sale securities.

At inception, both investments are recorded at cost, including transaction costs.

Available for sale securities are subsequently measured at their fair value based on market prices or valuation models. Unrealized gains or losses as result of fair value adjustments are recorded in equity, net of tax. When an available for sale securities is disposed of or impaired, the accumulated fair value adjustment recorded in equity is transferred to income and reported under the line item Gains (losses) from trading activities when applicable.

Investments held to maturity are recorded at their cost plus accrued interest and readjustments less impairment provisions made when the carrying amount exceeds the estimated recovery amount.

Interest and readjustments of investments held to maturity and available for sale securities are included under the line item Interest revenue.

Investment securities which are subject to hedge accounting are adjusted according to the rules for hedge accounting.

Purchases and sales of investment securities that must be delivered within the period established by market regulations or conventions are recorded using the trade date, that is the date on which the purchase or sale of the asset is committed. Any other purchase or sale is treated as a derivative (forward) until liquidation occurs.

As of December 31, 2008 and 2007, the Bank and subsidiaries do not hold held to maturity instruments.

*(h) Transactions with repurchase and resale agreements:*

The Bank and its subsidiaries enter into security repurchase agreements as a form of borrowing. Investments that are sold subject to a repurchase obligation and that serve as collateral for borrowings are reclassified as Trading securities or Available for sale. The liability to repurchase the investment is classified as Securities sold under repurchase agreements, which is valued in accordance with the agreed-upon interest rate.

The Bank and its subsidiaries also enter into resale agreements as a form of investment. Under these agreements, purchases securities, which are included as assets under the caption Securities purchased under resell agreements, which are valued in accordance with the agreed-upon interest rate.

**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated for general price - level changes and expressed in millions of constant****Chilean pesos as of December 31, 2008)****1. Summary of Significant Accounting Policies (continued)***(i) Loans to customers, allowances, charge-offs and loans recoveries:*

The loans granted and acquired by Banco de Chile and its subsidiaries are initially recorded at cost (i.e. the original amount loaned). After this initial recording, the loans are valued at their amortized cost and disclosed net of allowances for loan losses.

In accordance with regulations of the Superintendency of Banks and Financial Institutions, Banco de Chile, its subsidiaries and foreign branches utilize models and methods, based on an individual and group analysis of the debtors, to constitute the allowances for loan losses.

**Allowances for individual evaluations**

An individual analysis of debtors is applied to individuals or companies with whom, due to size, complexity or level of exposure with the entity, Banco de Chile must be completely familiar. Likewise, it requires assigning a risk category to each debtor and its respective loans. This risk category should consider the following factors: industry or sector, partners, management and administration, financial situation, behavior and payment capacity.

One of the following categories must be assigned to each debtor and its loans after the analysis has been finalized:

- i. Categories A1, A2 and A3 correspond to debtors without significant risks, whose payment capacity will continue to be positive even if unfavorable business, economic or financial situations should arise.
- ii. Category B corresponds to debtors that present some risk, but that do not show any sign of impairment. However, these debtors might stop paying some of its obligations in the fact of foreseeable, adverse business, economic or financial situations.
- iii. Categories C1, C2, C3, C4, D1 and D2 correspond to debtors with insufficient payment capacity.

In order to determine allowances for loan losses classified as A1, A2, A3 and B, Banco de Chile uses percentages approved by its Board of Directors. Allowance for debtors classified as C1, C2, C3, C4, D1 and D2 were determined, in conformity with regulations in place, as follows:

Category	Range of estimated loss	Allowance
C1	Up to 3%	2%
C2	More than 3% up to 19%	10%
C3	More than 19% up to 29%	25%
C4	More than 29% up to 49%	40%
D1	More than 49% up to 79%	65%
D2	More than 79%	90%

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### Allowances for group evaluations

The group analysis is used to analyze a large number of operations whose individual amounts are not significant and present similar risk characteristics. For this analysis, Banco de Chile uses models based on attributes of the debtors and their loans, and on the behavior of a group of loans. In the group evaluations, the allowances are always constituted in accordance with the estimated loss using the aforementioned models.

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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, 2008)**

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

*(i) Loans to customers, allowances, charge-offs and loans recoveries (continued):*

**Additional allowances**

In conformity with regulations of the Superintendency of Banks and Financial Institutions, Banco de Chile has constituted additional allowances for its individually evaluated loan portfolio, taking into consideration the expected impairment of this portfolio. The calculation of this allowance is performed based on Banco de Chile's historical experience and considering possible future adverse macroeconomic conditions or circumstances that could affect a certain sector, industry, groups of debtors or projects.

**Charge-offs**

Loans are written-off when the collection efforts have been exhausted but not later than the maximum periods prescribed by the Superintendency of Banks, which are as follows:

- 24 months past due (3 months past due for consumer loans) for loans without collateral.
- 36 months past due for loans with collateral.

**Loan loss recoveries**

Cash recoveries on written-off loans including loans that were reacquired from the Central Bank of Chile, recorded in memorandum accounts (see Note 25), are recorded directly to income, as a reduction of the Provision for loan losses item.

*(j) Leasing contracts*

Banco de Chile leases certain property that meets the criteria for direct financing leases. At the time of entering into a direct financing lease transaction, Banco de Chile records the aggregate of the minimum lease payment receivable less unearned income. Generally, the lessee acquires the leased asset by remitting all lease payments due. There are no significant residual values assumed by Banco de Chile. Unearned income represents the excess of the minimum lease payments receivable plus any estimated residual value over the cost of the property acquired.

Unearned income is recognized in such a manner as to produce a constant periodic rate of return on the net investment in the direct financing lease. The net investment in financing leases is classified as leasing contracts in the accompanying consolidated balance sheets.

*(k) Factoring transactions*

Banco de Chile and its subsidiary Banchile Factoring S.A. carry out factoring transactions, where they receive invoices and other commercial instruments representative of credit, with or without recourse, and they advance to the assignor a percentage of the total amounts to be collected from the original debtor.

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The caption "Loans to customers" includes MCh\$483,904 (MCh\$511,656 in 2007), corresponding to the amount advanced to the assigner plus accrued interest net of payments received.

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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, 2008)****1. Summary of Significant Accounting Policies (continued)***(l) Investments in other companies*

Shares or rights in other companies that are integral to the operations of Banco de Chile and where Banco de Chile holds a less than majority interest but has significant influence over the operating activities of the invested are accounted for under the equity method. Other minority investments are carried at cost restated for price-level changes.

*(m) Intangibles assets:*

This account includes goodwill, identifiable intangible assets and software, net of accumulated amortization and adjustments.

Intangible assets such as goodwill, assets generated in business combinations such as core deposit, software and trademark are valued at price-level restated cost and amortized using the straight-line method based on their estimated useful lives. The maximum amortization period for software is six years.

*(n) Fixed assets, net*

Fixed assets 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>Estimated Useful Life</b>
<b>Property, plant and equipment</b>	
Land and buildings	5-50
Furniture and fixtures	3-10
Machinery and equipment	2-10
Vehicles	5
Other equipment	6-8

*(o) Assets received in lieu of payment*

Assets received in lieu of payment are recorded at restated cost less regulatory charge-offs and presented net of a portfolio valuation allowance. The Superintendency of Banks and Financial Institutions requires regulatory charge-offs if the asset is not sold within one year of foreclosure.

*(p) Deferred taxes and income taxes:*

The deferred taxes effects of temporary differences between the financial and tax values of assets and liabilities are recorded in accordance with generally accepted accounting principles in Chile ( Chilean GAAP ) by using the liability method.

Income tax provision is determined based on current Chilean tax legislation.

The total impact of deferred and income taxes is showed under Note 27.



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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, 2008)**

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

*(q) Staff severance indemnities*

Banco de Chile has recorded a liability for long-term severance indemnities in accordance with employment contracts it has with certain employees. The liability, which is payable to specified retiring employees with more than 30 years of service, is recorded at the present value of the accrued benefits, which are calculated by applying a real discount rate to the benefit accrued as of year-end over the estimated average remaining service period. For the years ended December 31, 2006, 2007 and 2008, the obligation has been discounted using the real interest rate of 6% per annum.

*(r) Fees and expenses related to loans and services*

Loan origination fees and expenses are considered to be adjustments to loan yield and are deferred and amortized as interest income over the term of the loan. Fees and expenses related to other financial products, including contingent loans, are generally deferred and recognized as income over the term of the products to which they relate. Fees related to financial advisory and other services are recognized on an accrual basis at the time services are provided.

*(s) Consolidated statements of cash flows*

Cash and cash equivalents corresponds to the account Cash and bank deposits , plus (minus) the net balance of transactions in the course of collection that are shown in the Statement of Consolidated Financial Position, plus highly-liquid trading and available-for-sale instruments with insignificant risk of changing value, maturing in no more than three months from the date of acquisition and repurchase agreements with similar conditions. It also includes investments in fixed-income mutual funds that are presented together with trading instruments in the Statement of Consolidated Financial Position. For the years ended December 31, 2006, 2007 and 2008 the consolidated statement of cash flows has been prepared in accordance with Technical Bulletin No.65 of the Chilean Association of Accountants.

*(t) Convenience translation to U.S. dollars*

Banco de Chile maintains its accounting records and prepares its consolidated financial statements in Chilean pesos. The U.S. dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader at the observed exchange rate for December 31, 2008 of Ch\$629,11 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.

*(u) Translation of financial statements of Banco de Chile's foreign branches and subsidiaries*

The Bank translates the accounting records of its subsidiary Banchile Trade Services Limited, Hong Kong to Chilean pesos from US dollars in accordance with guidelines established by the SBIF, which are consistent with Technical Bulletin No. 64, Accounting for Investments Abroad , issued by the Chilean Association of Accountants. All Comprehensive Income Statement and Financial Position Statement 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 comprehensive income .

As of December 31, 2007, Banco de Chile applied the same criteria for their New York and Miami branches.



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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, 2008)**

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

*(v) Business combination*

On January 1, 2008, the merger transaction between Banco de Chile and Citibank was effective. This business combination was deemed as a merger of entities under common control as both banks were controlled by the same parent company at the date of the merger transaction. The merger of entities under common control is prescribed by Technical Bulletin No. 72 ( BT 72 ). BT 72 states that this type of transactions should be accounted using the pooling-of-interest method, whereby Citibank net assets acquired were recorded in the books of Banco de Chile at their previous carrying amount not recording any fair value adjustments or other identifiable net asset or intangible acquired.

**2. Changes in Accounting Principles**

(a) The SBIF, through its Circular No. 3,410 dated November 9, 2007, subsequently supplemented by Circular No. 3,443 dated August 21, 2008, introduced the new Compendium of Accounting Standards that Banks must apply as result of the IFRS convergence project developed by this Superintendency. The main impacts originated by the application of these new accounting criteria are described below:

i. Accounting changes applied during 2008:

In accordance with Chapters B-4 and E of the above mentioned Compendium of Accounting Standards, the Bank recorded a liability for an amount of MCh\$190,698 under the line item Provisions as of December 31, 2008 related to the minimum dividends payment, reflecting as a counterpart an equity reduction for the same amount under Retained earnings . Until 2007, dividend obligations were recorded when declared by the Shareholders Meeting. This change did not generate effects on income.

ii. New formats for the presentation of financial statements applied starting 2008:

Chapter C-3 of the above mentioned Compendium of Accounting Standards established the new formats for presentation of the annual financial statements, requiring in Chapter E, its application starting in 2008. The application of these new formats only affected the presentation of these financial statements, and did not have an effect on the accounting criteria applied by the Bank. For comparison purposes the 2007 and 2006 financial statements have been modified in accordance with the new presentation format, and therefore, the financial statements that are presented for this period differ, in terms of their presentation, from those reported the previous year.

iii. Standards that will be applicable starting in 2009:

In addition, the above-mentioned Compendium of Accounting Standards establishes that starting January 1, 2009, banks must begin with the application of the new accounting criteria established by the SBIF, and in those matters not addressed by the compendium, apply IFRS. The changes in accounting criteria are related, among other things, to the following matters: a) suspension of the price-level restatement mechanism; b) option to reevaluate fixed assets as of the date of first time adoption; c) changes and incorporation of additional disclosures in notes to the financial statements; etc.

**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, 2008)****2. Changes in Accounting Principles (continued)**

The application of these new accounting criteria originated adjustments on the Bank's equity accounts as of January 1, 2009, and will also affect the determination of income in future years. Likewise, and only for comparison purposes with the financial statements that will be presented in 2009, the Bank must present the financial statements for 2008 in accordance with the new accounting criteria, which will differ from those presented herein. As of the issuance date of these consolidated financial statements, the Bank prepared the information that allow it to estimate, with reasonable objectivity, the final adjustments that must be recorded in 2009 and the effects on the statement of financial position and on the statement of comprehensive income for 2008 (See further details in note 35).

- (b) Subsequent to the merge between Banco de Chile and Citibank Chile, which was effective on January 1, 2008, the Bank proceeded with the homologation criteria maintained by each bank before the merger with respect to financial instruments classification, according to the different categories defined by the rule. The homologation criteria process performed at September 30, 2008 has implied to reclassify certain financial instruments from Trading Securities to Available for sale instruments by an amount equivalent to MCh\$244,827 (historical).
- (c) During the period ended December 31, 2008, there have not been other accounting changes that may significantly affect these consolidated financial statements.

**3. Cash and Cash Equivalent**

- (a) Details of cash and cash equivalent and its reconciliation to the statement of cash flows at each year-end is as follows:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2008</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Cash and due from banks		
Cash	227,645	223,103
Chilean Central Bank deposits	39,899	168,255
Deposits in other Domestic banks	58,079	80,624
Deposits abroad	79,571	279,241
<b>Subtotal Cash and due from banks</b>	<b>405,194</b>	<b>751,223</b>
Net transactions in the course of settlement.	255,177	327,592
Highly liquid financial instruments	448,185	232,147
Repurchase agreements	75,283	75,519
<b>Total Cash and Cash equivalent</b>	<b>1,183,839</b>	<b>1,386,481</b>

In accordance with guidelines established by the Superintendency of Banks, Banco de Chile must maintain certain non-interest bearing balances in its account with the Central Bank. The required balances are based upon specified financial criteria, including the level of Banco de Chile's deposits, the amounts of its foreign borrowings and its average liabilities. These restricted cash amounts totaled MCh\$318,030 and

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MCh\$466,235 as of December 31, 2007 y 2008, respectively.

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2008)

**3. Cash and Cash Equivalent (continued)**

## (b) Transactions in the course of settlement:

Transactions in the course of settlement are transactions for which the only remaining step is settlement, which will increase or decrease the funds in the Central Bank or in foreign banks, normally occurring within 12 to 24 business hours and are detailed as follows:

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
<b>Assets</b>		
Documents drawn on other banks (clearing)	193,060	230,861
Funds receivable	137,918	238,719
<b>Subtotal transactions in the course of collection</b>	<b>330,978</b>	<b>469,580</b>
<b>Liabilities</b>		
Funds payable	(75,801)	(141,988)
<b>Subtotal transactions in the course of payment</b>	<b>(75,801)</b>	<b>(141,988)</b>
<b>Net transactions in the course of settlement</b>	<b>255,177</b>	<b>327,592</b>

**4. Trading Securities**

The detail of securities classified as trading is as follows:

	As of December 31,		Weighted Average Nominal Rate as of December 31, 2008 %
	2007	2008	
	MCh\$	MCh\$	
<b>Instruments issued by the Chilean Government and the Central Bank of Chile</b>			
Instruments issued by the Central Bank	328,931	224,447	4.51%
Treasury bonds or notes payable	298	80,046	5.04
Other government instruments	449	39	4.00
<b>Other instruments issued in Chile</b>			
Instruments issued by other banks	515,818	263,160	8.90
Bonds and commercial paper issued by companies	113,642	18,263	6.90
Other instruments issued in Chile	1,336	330	
<b>Instruments issued abroad</b>			
Instruments issued by other foreign banks	373,808		
Other instruments issued abroad	24,225	40,579	0.24

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**Mutual fund investments**

Funds managed by related companies	179,015	52,979	6.36
<b>Total</b>	<b>1,537,522</b>	<b>679,843</b>	<b>6.22%</b>

Instruments issued by the Chilean Government and Central Bank include instruments sold under agreements to repurchase to customers and financial institutions, equivalent to MCh\$9,012 as of December 31, 2008 (MCh\$53,064 in 2007).

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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, 2008)

**4. Trading Securities (continued)**

Included in Other instruments issued in Chile and instruments issued abroad are instruments sold under agreements to repurchase to customers and financial instruments, equivalent to MCh\$263,417 as of December 31, 2008 (MCh\$207,424 in 2007).

Agreements to repurchase have an average expiration of 13 days as of year-end (9 days in 2007).

Additionally, the Bank holds financial investments in mortgage finance bonds issued by itself in the amount of MCh\$113,127 (MCh\$138,433 in 2007), which are presented as a reduction of the liability line item Debt issued .

**5. Investments held to maturity and available for sale securities***(i) Available for sale*

	As of December 31,		Weighted Average
	2007	2008	Nominal Rate as of
	MCh\$	MCh\$	December 31, 2008
			%
<b>Available for Sale</b>			
<b>Instruments issued by the Chilean Government and Central Bank</b>			
Central Bank instruments		381,965	2.75%
Treasury bonds or notes payable		30,251	3.48
Other government instruments		11,466	4.16
<b>Other instruments issued in Chile</b>			
Instruments issued by other banks		498,303	1.93
Bonds and commercial paper issued by companies		46,569	5.36
<b>Instruments issued abroad</b>			
Other instruments issued abroad		102,884	6.73
<b>Total</b>		<b>1,071,438</b>	<b>2.90%</b>

As of December 31, 2008, the portfolio of available for sale securities include a net unrealized loss of MCh\$16,692 recorded in equity.

*(ii) Held to maturity*

As of December 31, 2008 and 2007, the Bank and subsidiaries do not hold held to maturity instruments.

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**6. Derivative Instruments***(a) The Bank uses derivative instruments for investing and hedging purposes*

	Notional amount of contract with final expiration date in						Fair value			
	Less than 3 months		Over 3 months/ Less than 1 year		Over 1 year		Assets		Liabilities	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Derivatives held for hedging purposes</b>										
Interest rate swaps					107,990	210,125	5,361	27,844		11,585
Total derivatives held for hedging purposes					107,990	210,125	5,361	27,844		11,585
<b>Derivatives held for investing purposes</b>										
Currency forwards	3,527,642	6,448,816	1,897,223	4,226,628	208,273	476,500	41,456	554,044	69,387	480,797
Interest rate swaps	25,849	1,678,768	93,881	3,954,401	705,639	6,915,953	4,189	139,569	4,972	160,819
Currency and rate swaps	10,799	341,276	109,623	874,434	86,391	2,167,170	37,091	182,034	56,295	207,247
Currency Call options	16,054	5,033	8,730	13,840			99	912	79	1,709
Rate call options					644,488	647,006			123	21
Currency put options	4,162	4,404		13,211			135	323		621
Total derivatives held for investing purposes	3,584,506	8,478,297	2,109,457	9,082,514	1,644,791	10,206,629	82,970	876,882	130,856	851,214
<b>Total derivative instruments</b>	<b>3,584,506</b>	<b>8,478,297</b>	<b>2,109,457</b>	<b>9,082,514</b>	<b>1,752,781</b>	<b>10,416,754</b>	<b>88,331</b>	<b>904,726</b>	<b>130,856</b>	<b>862,799</b>

*(b) Fair value of traded instruments*

The table below sets forth the estimated fair value of derivative financial instruments held or issued by the Bank for trading and hedging purposes as of December 31, 2007 and 2008.

	Fair values as of December 31,	
	2007	2008
	MCh\$	MCh\$
Contract to purchase and sell foreign exchange, net	(27,931)	73,247
Currency and interest rate swaps and options, net	(14,595)	(31,320)

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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**7. Loans and Advance to Banks**

As of December 31, 2008 and 2007, amounts are detailed as follows:

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
<b>Domestic Banks</b>		
Unavailable Central Bank Deposits	246,605	250,000
Other Central Bank credits	155	665
Interbank loans	30,948	10,005
Current account overdrafts	2	
<b>Foreign Banks</b>		
Loans to foreign banks	25,682	33,484
Other credits with foreign banks		28,154
Provisions and impairment of loans with foreign banks	(227)	(316)
<b>Total</b>	<b>303,165</b>	<b>321,992</b>

**8. Loans to customers, net**

The loans and account receivable from clients included in the accompanying consolidated balance sheets are classified into subcategories as described below:

**(a) Commercial Loans**

Comprised of loans and accounts receivable from clients not included in mortgage or consumer loans categories.

**(b) Mortgage Loans**

This includes mortgage loans granted to individuals to acquire, expand, repair or build a home, issued as mortgage bonds, endorsable mortgage loans or other methods. It also includes supplementary loans for the same purposes and bridge loans granted during the period before the mortgage loan has been settled. This subcategory also includes residential real state lease transactions and other accounts receivable.

**(c) Consumer Loans**

Comprised of all loans granted to individuals to be used for purchasing goods or services. It includes different types of loans (either installments or revolving), as well as balances from using credit cards or making overdrafts on current accounts belonging to individuals. Consumer loans also include consumer lease transactions and other accounts receivable.



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**8. Loans to customers, net (continued)**

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
<b>Commercial Loans:</b>		
Commercial loans	5,430,444	6,496,155
Foreign trade loans	946,065	1,532,302
Current account debtors	288,652	193,062
Factoring transactions	511,656	483,904
Leasing transactions	710,490	724,423
Other loans and accounts receivable	20,566	23,598
<b>Subtotal</b>	<b>7,907,873</b>	<b>9,453,444</b>
<b>Mortgage Loans:</b>		
Mortgage bonds	298,788	256,875
Endorsable mortgage loans	232,813	203,996
Other residential real state mortgage loans	1,612,755	1,846,129
Other loans and accounts receivable	1,118	1,013
<b>Subtotal</b>	<b>2,145,474</b>	<b>2,308,013</b>
<b>Consumer Loans:</b>		
Consumer loans in installments	1,000,477	1,324,250
Current account debtors	234,060	250,158
Credit card debtors	240,040	312,109
Lease transactions	66	54
Other loans and accounts receivable	1,170	977
<b>Subtotal</b>	<b>1,475,813</b>	<b>1,887,548</b>
<b>Total Loans</b>	<b>11,529,160</b>	<b>13,649,005</b>
<b>Allowances:</b>		
Allowances for commercial loans	(82,185)	(124,777)
Allowances for mortgage loans	(8,323)	(11,199)
Allowances for consumer loans	(56,286)	(91,225)
<b>Subtotal</b>	<b>(146,794)</b>	<b>(227,201)</b>
<b>Total Loans to Customers, Net</b>	<b>11,382,366</b>	<b>13,421,804</b>



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**8. Loans to customers, net (continued)**

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,	
	2007	2008
	%	%
Residential mortgage loans	18.60	16.90
Financial services	18.40	16.78
Community, Social and Personal Services	14.93	15.41
Consumer loans	12.80	13.83
Commerce	9.51	10.54
Manufacturing	8.42	8.51

Substantial portions of Banco de Chile's loans are to borrowers doing business in Chile.

**9. Allowance for Loan Losses**

The changes in the allowance for loan losses for the periods indicated are as follows:

	As of December 31,		
	2006	2007	2008
	MCh\$	MCh\$	MCh\$
Balance as of January 1,	138,498	140,288	146,794
Balance from Citibank Chile			20,840
Price-level restatement (1)	(2,849)	(9,665)	(12,350)
Charge-offs	(70,960)	(77,933)	(104,914)
Allowances established	75,739	94,332	176,840
Allowances released	(140)	(228)	(9)
<b>Balance as of December 31,</b>	<b>140,288</b>	<b>146,794</b>	<b>227,201</b>

(1) Reflects the effect of both inflation and exchange rate changes of foreign branches and Banco de Chile's subsidiary on the allowance for loan losses at the beginning of each period, adjusted to constant pesos of December 31, 2008.

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

	Year ended December 31,		
	2006	2007	2008
	MCh\$	MCh\$	MCh\$

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Allowances established	75,739	94,332	176,840
Allowances released	(140)	(228)	(9)
Loan loss recoveries	(32,866)	(38,250)	(39,648)
Other allowances established (1)	240	824	1,410
<b>Net charges to income</b>	<b>42,973</b>	<b>56,678</b>	<b>138,593</b>

(1) Other allowances established includes provisions from Loans and Advances to Banks and Contingent.

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**10. Leasing Contracts**

Banco de Chile's scheduled cash flows to be received from leasing contracts have the following maturities as of December 31, 2007 and 2008:

Maturity	Total receivable		Unearned income		Net lease receivable	
	2007	2008	2007	2008	2007	2008
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Due within one year	276,365	274,643	(31,643)	(34,417)	244,722	240,226
Due after 1 year but within 2 years	170,540	178,299	(22,201)	(23,336)	148,339	154,963
Due after 2 years but within 3 years	109,953	120,661	(15,280)	(15,779)	94,673	104,882
Due after 3 years but within 4 years	72,042	71,272	(10,770)	(10,964)	61,272	60,308
Due after 4 years but within 5 years	48,732	49,196	(7,907)	(8,070)	40,825	41,126
Due after 5 years	141,798	143,735	(21,139)	(20,817)	120,659	122,918
<b>Total leasing contracts</b>	<b>819,430</b>	<b>837,806</b>	<b>(108,940)</b>	<b>(113,383)</b>	<b>710,490</b>	<b>724,423</b>

Leased assets consist principally of real estate, industrial machinery, vehicle, and computer equipment. The allowance for uncollectible lease receivable was MCh\$8,753 and MCh\$10,811 as of December 31, 2007 and 2008, respectively, which forms part of the allowance for loan losses.

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**11. Investments in other companies**

(a) As of December 31, 2006, 2007 and 2008, investments in other companies and Banco de Chile's participation in those companies' results of operations for each of the periods indicated, consist of the following:

Shareholder	As of and for the years ended December 31,						Ownership	
	2006		2007		2008		Interest 2008 %	
	Investment MCh\$	Income (Loss) MCh\$	Investment MCh\$	Income (Loss) MCh\$	Investment MCh\$	Income (Loss) MCh\$		
Servipag Ltda.	Banco de Chile	1,770	301	2,137	367	2,654	518	50.00
Soc. Operadora de Tarjetas de Crédito Nexus S.A.	Banco de Chile	1,426	277	1,316	255	1,269	209	25.81
Redbanc S.A.	Banco de Chile	1,103	179	1,090	166	1,678	166	38.13
Transbank S.A.	Banco de Chile	1,070	164	1,073	166	1,777	413	26.16
Bolsa de Comercio de Santiago (Stock Exchange)	Banchile Corredores de Bolsa S.A.	735	173	743	234	790	214	4.17
Bolsa De Comercio de Santiago (Stock Exchange)	Citibank Agencia de Valores S.A.					395	107	2.08
Soc. Operadora Cámara Compensación de Pagos de Alto Valor S.A. (1)	Banco de Chile	403	68	456	52	729	181	20.19
Centro de Compensación Automatizado S.A. (CCA S.A.)	Banco de Chile	281	47	299	41	304	28	33.33
Artikos Chile S.A. (2).	Banco de Chile	192	50	252	59	355	104	50.00
Sociedad Interbancaria de Depósito de Valores S.A.	Banco de Chile	220	48	234	45	360	69	26.81
Bolsa de Valores de Chile (Stock Exchange)	Banchile Corredores de Bolsa S.A.	179	10	186	8	201	14	4.88
Bolsa de Valores de Chile (Stock Exchange)	Citibank Agencia de Valores S.A.					100	7	2.44
Administrador Financiero de Transantiago S.A. (3)	Banco de Chile	1,400	(111)		(3,622)	526	957	20.00
Total investments in affiliates accounted for under the equity method		8,779	1,206	7,786	(2,229)	11,138	2,987	

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Other investments carried at cost	221	228	239
<b>Total investments in other companies</b>	<b>9,000</b>	<b>1,206</b>	<b>8,014 (2,229) 11,377 2,987</b>

(1) On September 23, 2004, a banking support company, Sociedad Operadora Cámara de Compensación de Pagos de Alto Valor S.A., was formed. This company's objective is to provide check clearing services among its members. Banco de Chile subscribed and fully paid MCh\$292 (in historical pesos) for this company's capital, which gives it a participation of 18.16%. As December 31, 2005 Banco de Chile's participation decreased to 11.66% as result of payment of shares subscribed by other that were not paid as of December 31, 2004. On January 5, 2006, Banco de Chile decreased its participation to 11.52% as a result of not concurrence to a capital increase in Sociedad Operadora Cámara Compensación de Pagos de Alto Valor S.A.

(2) On June 2, 2005, as agreed by the Board of Directors of Banco de Chile at meeting No. 2,599, held on May 12, 2005, Banco de Chile subscribed and paid MCh\$250 (in historical pesos) for a capital increase at Artikos Chile S.A.

(3) On June 8, 2005, as agreed by the Board of Directors of Banco de Chile at meeting No. 2,599, held on May 12, 2005, Banco de Chile subscribed and paid 200,000 shares, for a value of MCh\$1,352 (in historical pesos), for this company's capital, for the formation of an Banking Support Company to the line of business called Administrador Financiero de Transantiago S.A.

During December 2007, by agreement of the Extraordinary Shareholders Meeting of Administrador Financiero de Transantiago S.A. the extraordinary contributions made by the partners were capitalized, whereby Banco de Chile capitalized MCh\$2,040 (historical).

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**11. Investments in other companies (continued)**

(b) The reconciliation between opening and ending balance of investments in other companies that are no consolidated in 2008 and 2007 is detailed as follows:

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
Opening Balance	8,380	8,014
Balance from Citibank Chile		1,944
Acquisitions	2,222	
Participation in net income	(2,229)	2,987
Dividends received	(930)	(1,015)
Impairment allowance		(464)
Other	571	(89)
<b>Ending Balance</b>	<b>8,014(*)</b>	<b>11,377</b>

(\*) Balance at January 1, 2008, includes the opening balance from Citibank Chile after the merge with Banco de Chile at the same date

**12. Intangibles Assets**

As of December 31, 2008 and 2007, Intangibles assets are detailed as follows:

	As of	
	December 31, 2007	December 31, 2008
	MCh\$	MCh\$
Goodwill		
Legg Mason		3,904
Share in stock exchange (Accival)		542
<b>Subtotal</b>		<b>4,446</b>
Software or computer programs	27,196	28,675
Legg Mason customer list		1,642
<b>Total</b>	<b>27,196</b>	<b>34,763</b>

**13. Fixed assets**

The major categories of fixed assets net of accumulated depreciation are as follows:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2008</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Land and buildings	112,348	129,283
Machinery and equipment	64,371	66,970
Furniture and fixtures	3,073	4,408
Vehicles	1,104	1,126
Others	3,005	3,582
<b>Fixed Assets, net</b>	<b>183,901</b>	<b>205,369</b>

In accordance with rules of the Superintendency of Banks, bank premises and equipment are presented net of accumulated depreciation.

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**14. Other Assets and Other Liabilities***(a) Other assets*

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
Assets held for leasing	44,424	42,414
Pending transactions	12,536	25,359
Other account and notes receivable	63,122	10,411
VAT receivable	7,448	6,785
Commissions receivable	1,428	6,724
Assets received in lieu of payment	5,812	4,086
Prepaid expenses	2,506	2,438
Materials and supplies	694	975
Additional consideration paid in the purchase of mortgage bonds	1,134	888
Rental guarantees	573	840
Accounts receivable for asset received in lieu of payment sold	3,277	584
Lawsuits in collection process	358	
Assets to be securitized	6,895	
Other	10,573	8,799
<b>Total other assets</b>	<b>160,780</b>	<b>110,303</b>

*(b) Other liabilities*

	As of	
	December 31,	2008
	2007	MCh\$
	MCh\$	MCh\$
Accounts and notes payable	51,994	82,814
VAT payable	7,206	7,829
Leasing deferred gains	8,039	7,568
Pending transactions	13,619	3,407
Deferred income	3,430	2,359
Other	664	3,073
<b>Total other liabilities</b>	<b>84,952</b>	<b>107,050</b>

**15. Currents Accounts and Other Demand Deposits**

As of December 31, 2008 and 2007, currents accounts and other demand deposits are detailed as follows:

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	As of December 31,	
	2007	2008
	MCh\$	MCh\$
Current accounts	2,135,997	2,534,753
Other demand liabilities	286,480	292,593
Other demand deposits and accounts	313,204	179,915
<b>Total</b>	<b>2,735,681</b>	<b>3,007,261</b>

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**16. Saving Accounts and Time Deposits**

As of December 31, 2008 and 2007, saving accounts and time deposits are detailed as follows:

	As of December 31	
	2007	2008
	MCh\$	MCh\$
Time deposits	6,978,377	8,309,719
Term savings accounts	151,510	157,271
Other term balances payable	4,341	5,600
<b>Total</b>	<b>7,134,228</b>	<b>8,472,590</b>

**17. Other Interest Bearing Liabilities**

Banco de Chile's long-term and short-term borrowings are summarized below. In accordance with the guidelines established by the Superintendency of Banks, Banco de Chile does not present a classified balance sheet. Borrowings are described as short-term when they have original maturities of less than one year or are due on demand. All other borrowings are described as long-term, including the amounts due within one year on such borrowings. None of the following financial liabilities are collateralized, except for investment sold under agreement to repurchase, nor are subject to covenants.

	As of December 31, 2007			As of December 31, 2008		
	Long-term	Short-term	Total	Long-term	Short-term	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Borrowing from financial institution:</b>						
(a) Central Bank Credit lines for renegotiation of loans	559		559	307		307
(b) Borrowings from domestic financial institutions		80,529	80,529		2,598	2,598
(c) Borrowings from foreign institutions	684,858	167,685	852,543		1,495,644	1,495,644
<b>Debt issued:</b>						
(d) Bonds	841,580		841,580	994,583		994,583
(e) Subordinated bonds	486,124		486,124	555,576		555,576
(f) Mortgage finance bonds	432,696		432,696	350,429		350,429
<b>Other financial obligations</b>	5,304	63,348	68,652	45,707	48,001	93,708
<b>Total other interest bearing liabilities</b>	<b>2,451,121</b>	<b>311,562</b>	<b>2,762,683</b>	<b>1,946,602</b>	<b>1,546,243</b>	<b>3,492,845</b>

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**17. Other Interest Bearing Liabilities (continued)***(a) Central Bank borrowings*

Central Bank borrowings include credit lines for the renegotiation of loans and other Central Bank borrowings. Credit lines were provided by the Central Bank for the renegotiation of mortgage loans due to the need to refinance debts as a result of the economic recession and crisis of the Chilean banking system from 1982 to 1985. The credit lines for the renegotiations of mortgage loans are linked to the UF index and carry a real annual interest rate of 3.46%. The maturities of the outstanding amounts are as follows:

	As of December 31, 2008 MCh\$
Due within 1 year	307
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>307</b>
<b>Total short-term (Other Central Bank borrowings)</b>	
<b>Total Central Bank borrowings</b>	<b>307</b>

*(b) Borrowings from domestic financial institutions*

Borrowings from domestic financial institutions are used to fund Banco de Chile's general activities, carry a weighted average annual real interest rate of 4.8% and have the following outstanding maturities as of December 31, 2008.

	As of December 31, 2008 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	

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Due after 5 years

<b>Total long-term</b>	
<b>Total short-term</b>	2,598(1)
<b>Total borrowings from domestic financial institutions</b>	<b>2,598</b>

- (1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2008 had remaining maturities of less than one year

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**17. Other Interest Bearing Liabilities (continued)***(c) Borrowings from foreign financial institutions*

Banco de Chile has short-term and long-term borrowings from foreign banks. The outstanding maturities of these borrowings as of December 31, 2008 are as follows:

	As of December 31, 2008 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>	1,495,644
<b>Total borrowings from financial institutions</b>	<b>1,495,644</b>

Each of these loans is denominated in foreign currency and is principally used to fund our foreign trade loans and carry an average annual nominal interest rate of 2.76% as of December 31, 2008.

*(d) Bonds*

The maturities of outstanding bond amounts as of December 31, 2008 are as follows:

	As of December 31, 2008 MCh\$
Due within 1 year	392,292
Due after 1 year but within 2 years	181,512
Due after 2 years but within 3 years	126,878
Due after 3 years but within 4 years	91,254
Due after 4 years but within 5 years	48,507
Due after 5 years	154,140
<b>Total bonds</b>	<b>994,583</b>

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Bonds are linked to the UF Index and carried an average real annual interest rate of 3.33% as of December 31, 2008, with interest and principal payments due semi-annually. The bonds were originally intended to finance loans that had a maturity of greater than one year.

In 2008, Banco de Chile issued ordinary bonds in Unidades de Fomento divided into two series, Y and X. The Y series was issued for an amount of MCh\$79,400 (historic pesos) with a maturity of 5 years and a coupon rate of 3.3%. The X series was issued for an amount of MCh\$77,810 (historic) with a maturity of 6 years and a coupon rate of 2.5%.

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Our currently outstanding subordinated bonds are linked to the UF index with interest and principal payments due semi-annually. The discount on the issuance of the currently outstanding subordinated bonds is amortized over the life of the bond. As of December 31, 2008, the effective real interest rate was 6.05% 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, 2008 the outstanding maturities of the bonds, which are considered long-term, are as follows:

	As of December 31, 2008 MCh\$
Due within 1 year	31,541
Due after 1 year but within 2 years	25,710
Due after 2 years but within 3 years	28,949
Due after 3 years but within 4 years	28,950
Due after 4 years but within 5 years	20,893
Due after 5 years	419,533
<b>Total subordinated bonds</b>	<b>555,576</b>

During 2008, Banco de Chile issued subordinated bonds with a 25-year maturity. They were issued in Unidades de Fomento and the issuance totaled MCh\$53,916 (historic pesos). They accrued interest at an annual rate of 4.5%.

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

*(f) Mortgage finance bonds*

These bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and carry a weighted average annual rate of interest of 4.21% as of December 31, 2008.

The maturities of outstanding mortgage bond amounts as of December 31, 2008 are as follows:

	As of December 31, 2008 MCh\$
Due within 1 year	46,364
Due after 1 year but within 2 years	45,233

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Due after 2 years but within 3 years	42,982
Due after 3 years but within 4 years	39,639
Due after 4 years but within 5 years	34,297
Due after 5 years	141,914
<b>Total mortgage finance bonds</b>	<b>350,429</b>

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**17. Other Interest Bearing Liabilities (continued)***(g) Other financial obligations*

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
Other long-term obligations:		
Obligations with Chilean government	5,304	45,707
<b>Total other long-term obligations</b>	<b>5,304</b>	<b>45,707</b>
Other short-term obligations	63,348	48,001
<b>Total other obligations</b>	<b>68,652</b>	<b>93,708</b>

As of December 31, 2008, other obligations had the following maturities:

	As of December 31, 2008
	MCh\$
Due within 1 year	1,476
Due after 1 year but within 2 years	2,211
Due after 2 years but within 3 years	10,857
Due after 3 years but within 4 years	2,051
Due after 4 years but within 5 years	1,896
Due after 5 years	27,216
<b>Total long-term</b>	<b>45,707</b>
<b>Total short-term</b>	<b>48,001(1)</b>
<b>Total other obligations</b>	<b>93,708</b>

(1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2008 had remaining maturities of less than one year.

**18. Obligations Arising From Lease Commitments**

Banco de Chile leases certain premises under operating leases. The following table shows the future minimum payments under the terms of the lease commitments, expressed in constant Chilean pesos as of December 31, 2008.

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	As of December 31, 2008 MCh\$
Due within 1 year	15,195
Due after 1 year but within 2 years	12,398
Due after 2 years but within 3 years	9,995
Due after 3 years but within 4 years	7,744
Due after 4 years but within 5 years	7,007
Due after 5 years	26,343
<b>Total obligations arising from lease commitments</b>	<b>78,682</b>

The rental expense on the premises was MCh\$11,812, MCh\$12,373 and MCh\$15,829 for the years ended December 31, 2006, 2007 and 2008, respectively, and is included in the Consolidated Statements of Income under Administrative expenses .

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**19. Other Provisions**

Provisions included within liabilities are detailed as follows:

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
Provision for minimum dividends		190,698
Provisions for personnel benefits and payroll	36,025	43,821
Additional loan allowance	23,216	38,880
Co-branding allowance	7,326	10,688
Allowance for contingent loan risks	4,890	5,580
Allowance for credit card risk fund	513	527
Civil lawsuit allowance	1,109	483
Country risk allowance	354	313
<b>Total other provisions</b>	<b>73,433</b>	<b>290,990</b>

**20. Minimum Regulatory Capital Requirements**

In accordance with the General Banking Law, the Bank must maintain a minimum ratio of Effective Equity to Consolidated Risk-Weighted Assets of 8%, net of required provisions and a minimum ratio of Basic Capital to Total Consolidated Assets of 3%, net of required provisions. However, because of the 2008 merger of Banco de Chile and Citibank Chile, the SBIF, through Resolution No. 209 dated December 26, 2007, established that the institution is obligated to maintain an Effective Equity to Consolidated Risk-Weighted Assets ratio no less than 10%.

The Effective Equity is defined as net capital base plus subordinated bonds, up to 50% of the capital and reserves, plus additional provisions of up to 1.25% of their risk-weighted assets. The value of the subordinated bonds that can be considered in the effective equity should decrease by 20% per year beginning six years prior to maturity.

Banco de Chile's actual qualifying net capital base and effective equity used to support its risk-weighted assets as of December 31, 2008, are set forth in the following table:

	As of December 31, 2008
	MCh\$
<b>Basic Capital</b>	1,297,735
3% of total assets net of provisions	(593,849)
<b>Excess over minimum required equity</b>	<b>703,886</b>
Net capital base as a percentage of the total assets, net of provisions	6.56%

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<b>Effective equity</b>	1,774,448
8% of risk-weighted assets	(1,212,317)
<b>Excess over minimum required equity</b>	562,131
Effective equity as a percentage of the risk-weighted assets (*)	11.71%

(\*) This ratio has been determined on total assets adjusted by risk on a consolidated basis, as established by Circular No.3,178 dated June 7, 2002, of the Superintendency of Banks.

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(Restated for general price - level changes and expressed in millions of constant

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**21. 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 2006, 2007 and 2008 in constant Chilean pesos of December 31, 2008 are as follows:

	Paid during the year ended		
	December 31,		
	2006	2007	2008
	MCh\$	MCh\$	MCh\$
Dividends relating to prior year net income	175,122	175,777	264,463

**22. Transactions with Related Parties**

In accordance with the rules of the Superintendency of Banks, related parties are defined as individuals or companies who are directors, officers, or shareholders who own more than 1% of Banco de Chile's shares.

Entities in which a director, officer or shareholder of Banco de Chile holds more than a 5% interest as well as entities that have directors in common with Banco de Chile are also considered to be related parties. In the following tables, trading and manufacturing companies are defined as operating companies, and companies whose purpose is to hold shares in other companies are defined as investment companies.

*(a) Loans granted to related parties*

Loans to related parties, all of which are current, are as follows:

	2006		As of December 31, 2007		2008	
	Collateral		Collateral		Collateral	
	Loans	Pledged	Loans	Pledged	Loans	Pledged
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Operating companies	169,284	81,353	189,885	57,435	279,287	104,140
Investment companies	12,706	142	37,759	13	34,439	10
Individuals (1)	4,498	4,206	4,648	4,311	4,696	4,195
<b>Total</b>	<b>186,488</b>	<b>85,701</b>	<b>232,292</b>	<b>61,759</b>	<b>318,422</b>	<b>108,345</b>

(1) Includes only debt obligations that are equal to or greater than UF3,000, equivalent to approximately MCh\$64 as of December 31, 2008. The activity in the balances of loans to related parties are as follows:

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	2007	2008
	MCh\$	MCh\$
Balance as of January 1	186,488	232,292
New loans	120,936	205,465
Repayments	(62,283)	(100,351)
Price-level restatement (1)	(12,849)	(18,984)
<b>Balance as of December 31,</b>	<b>232,292</b>	<b>318,422</b>

(1) Reflects the effect of restatement of beginning balances to constant pesos of December 31, 2008.

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(Restated for general price - level changes and expressed in millions of constant

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

During the years ended December 31, 2006, 2007 and 2008, Banco de Chile incurred the following expenses and income as a result of transactions with related parties equal to or greater than UF 5,000 equivalent to approximately MCh\$107 as of December 31, 2008.

	Years ended December 31,					
	2006		2007		2008	
	Expense MCh\$	Revenue MCh\$	Expense MCh\$	Revenue MCh\$	Expense MCh\$	Revenue MCh\$
Empresa Nacional de Telecomunicaciones S.A.	3,913		4,633		5,448	
Redbanc S.A.	4,527		4,171		4,402	
Operadora de Tarjetas de Crédito Nexus S.A.	3,679		3,988		3,711	
Consortio Nacional de Seguros S.A.					3,107	
Entel Telefonía Local S.A.	2,028		2,067		1,743	
Entel PCS Telecomunicaciones S.A.	541		628		585	
Depósito Central de Valores, Depósitos de Valores S.A.	515		584			
Bolsa de Comercio de Santiago Bolsa de Valores	354		406		199	
Banchile Cía de Seguros de Vida S.A.	360		384		458	
Plaza Oeste S.A.	326		384		438	
Soc. Operadora de la Cámara Com. Pagos Alto Valor S.A.	413		339		395	
Parque Arauco S.A.			334			
Artikos S.A.	238		230		229	
Empresa periodística La Tercera S.A.			227		698	
Sonda S.A.	1,015		191			
Asociación de Bancos e Instituciones Financieras	159		176		174	
Plaza Antofagasta S.A.	50		159		135	
Plaza El Trébol S.A.	112		138		161	
Parque La Serena S.A.					147	
Citicorp North America Inc.					1,551	
CTI Inc.					888	
Latin America Cash Settlement Unit					693	
Diners Club Argentina					67	
Citigroup Chile S.A.						496
Línea Aérea Nacional Chile S.A.		135		136	127	130
<b>Subtotal</b>	<b>18,230</b>	<b>135</b>	<b>19,039</b>	<b>136</b>	<b>25,356</b>	<b>626</b>
<b>Transactions between 1,000 and 5,000 UF:</b>						
Services expenses	318		377		508	
Rental income	126		85		112	
Telephone expenses					68	
Revenue from rentals						24
<b>Subtotal</b>	<b>444</b>		<b>462</b>		<b>688</b>	<b>24</b>

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<b>Total</b>	<b>18,674</b>	<b>135</b>	<b>19,501</b>	<b>136</b>	<b>26,044</b>	<b>650</b>
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These expense and revenue items are for services received and rendered by Banco de Chile from and to related parties at market rates. Article 89 of the Chilean Corporations Law requires that Banco de Chile's transactions with related parties be carried out on a market basis or on terms similar to those prevailing in the market.

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**23. Fees and commissions**

Banco de Chile's fees and commissions from services for the years ended December 31, 2006, 2007 and 2008 are summarized as follows:

	Years ended December 31,					
	2006		2007		2008	
	Income MCh\$	Expenses MCh\$	Income MCh\$	Expenses MCh\$	Income MCh\$	Expenses MCh\$
Card Services	48,224		52,183		63,108	
Collection and payment	40,452	(5,387)	40,110	(5,742)	50,493	(7,107)
Investments in mutual funds and others	35,844	(2,738)	42,137		41,131	
Lines of credit and overdrafts	29,678		27,735		32,205	
Trading and securities management	16,172		24,064		20,140	
Insurance Brokerage	11,289	(6)	12,542		18,210	
Portfolio management	9,244		8,974		12,240	
Guarantees and letters of credit	7,044		9,189		9,108	
Financial advisory services	3,326		1,319		6,773	
Credit card transactions		(20,765)		(21,172)		(26,502)
Services of pre-evaluation credits		(16,294)		(16,333)		(19,325)
Sale of mutual fund units				(2,929)		(2,377)
Fees for securities transactions		(841)		(2,362)		(1,146)
Foreign trade and currency exchange	3,123					
Others fees	13,630	(2,330)	19,844	(1,786)	22,491	(3,578)
<b>Total</b>	<b>218,026</b>	<b>(48,361)</b>	<b>238,097</b>	<b>(50,324)</b>	<b>275,899</b>	<b>(60,035)</b>

Fees on mortgage finance loans operations are shown in the Consolidated Statements of Comprehensive Income under the line item Interest Revenue .

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**24. Board of Directors Compensation**

As agreed at the Shareholders Meeting, during 2007 and 2008 Banco de Chile and its subsidiaries have paid, and charged to income, the following compensation to their Directors:

Name of Director	Remunerations		Fees for attending Board meetings		Fees for attending Committees and Subsidiary Board meetings (1)		Consulting		Total	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Pablo Granifo Lavín	321(*)	363(*)	36	51	215	332			572	746
Andrónico Luksic Craig	147	147	13	9					160	156
Jorge Awad Mehech	49	49	24	25	80	74			153	148
Hernán Büchi Buc	37	12	17	4	33	14		10	87	40
Jacob Ergas Ergas	49	49	17	19	66	47			132	115
Jaime Estévez Valencia	37	49	19	26	54	76			110	151
Guillermo Luksic Craig	49	49	7	13					56	62
Rodrigo Manubens Moltedo	49	49	24	25	112	66	49		234	140
Gonzalo Menéndez Duque	49	49	25	23	134	121			208	193
Francisco Pérez Mackenna	49	49	23	23	67	62			139	134
Fernando Cañas Berkowitz	36		10		103				149	
Thomas Fürst Freiwirth	49	49	23	21	69	56			141	126
Jorge Ergas Heymann	49	1	17	2	42	2			108	5
Jorge Díaz Vial	72		11		24		1		108	
Segismundo Schulín-Zeuthen Serrano	12		5		12		14		43	
Máximo Pacheco Matte	12		3						15	
Juan Andrés Fontaine		38		20		46				104
Other subsidiaries directors					91	123			91	123
<b>Total</b>	<b>1,066</b>	<b>953</b>	<b>274</b>	<b>261</b>	<b>1,102</b>	<b>1,019</b>	<b>64</b>	<b>10</b>	<b>2,506</b>	<b>2,243</b>

(1) Includes fees paid to members of the Advisory Committee of Banchile Corredores de Seguros Ltda..

(\*) Includes a provision of MCh\$216 (MCh\$209 in 2007) for an incentive whose payment is subject to compliance with the Bank's forecasted earnings.

Travel and other related expenses amount to MCh\$279 (MCh\$270 in 2007).

**25. Loan Loss Recoveries**

Years ended December 31,  
2006 2007 2008

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	MCh\$	MCh\$	MCh\$
Loan portfolio previously charged-off	32,821	37,830	39,370
Loans reacquired from Central Bank	45	420	278
<b>Total</b>	<b>32,866</b>	<b>38,250</b>	<b>39,648</b>

Recovery of loans re-acquired from the Central Bank includes payments received on such loans, which at the date of their repurchase from the Central Bank were deemed to have no value and were recorded in memorandum accounts, are recorded directly to income, as a reduction of the Provision for loan losses item.

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**26. 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, 2007 and 2008 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, 2007			As of December 31, 2008		
	Payable in Foreign Currency MCh\$	Payable in Chilean Pesos MCh\$	Total MCh\$	Payable in Foreign Currency MCh\$	Payable in Chilean Pesos MCh\$	Total MCh\$
<b>ASSETS</b>						
Cash due from banks and transactions in the course of	152,189		152,189	582,582		582,582
Trading securities	525,998	68	526,066	62,218	4,345	66,563
Investment securities				102,884		102,884
Loans to customers and advance to banks Held to maturity and available for sale	1,166,075	1,338	1,167,413	2,052,587	773	2,053,360
Leasing contracts		87,696	87,696		92,764	92,764
Other assets (1)	442,427		442,427	1,039,426		1,039,426
<b>Total assets</b>	<b>2,286,689</b>	<b>89,102</b>	<b>2,375,791</b>	<b>3,839,697</b>	<b>97,882</b>	<b>3,937,579</b>
<b>LIABILITIES</b>						
Deposits and transactions in the course of collection	1,174,362	37	1,174,399	2,057,417	51,888	2,109,305
Borrowings from domestic financial institutions	102,346		102,346	63,543		63,543
Foreign borrowings	852,506		852,506	1,495,435	5,829	1,501,264
Other liabilities	238,015	208	238,223	212,140	213	212,353
<b>Total liabilities</b>	<b>2,367,229</b>	<b>245</b>	<b>2,367,474</b>	<b>3,828,535</b>	<b>57,930</b>	<b>3,886,465</b>
<b>NET (LIABILITIES) ASSETS</b>	<b>(80,540)</b>	<b>88,857</b>	<b>8,317</b>	<b>11,162</b>	<b>39,952</b>	<b>51,114</b>

(1) As of December 31, 2008 and 2007, notional amounts of derivative instruments are presented on a net basis

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**27. Deferred and Current Tax****(a) Deferred tax**

Banco de Chile and its subsidiaries have recorded in the Financial Statements the effects of deferred taxes and amortization of its complementary accounts, as provided by the Chilean Association of Accountants. The movements and effects from deferred taxes are shown on the following table:

	Balance as of December 31, 2007 (1) MCh\$	Balance from Citibank Chile MCh\$	2008 Deferred taxes MCh\$	Balance as of December 31, 2008 MCh\$
<b>Deferred tax assets</b>				
Allowances for loan losses	22,295	3,095	12,112	37,502
Obligations with repurchase agreements	4,596		4,598	9,194
Leasing equipment	2,892	439	(20)	3,311
Assets at market value	79		(892)	(813)
Personnel provisions	2,187		1,357	3,544
Staff vacations	2,246	545	266	3,057
Accrued interest and indexation adjustments from past due loans	1,576	47	760	2,383
Staff severance indemnities	1,094		(199)	895
Other adjustments	8,069	4,125	(762)	11,432
<b>Total deferred tax assets</b>	<b>45,034</b>	<b>8,251</b>	<b>17,220</b>	<b>70,505</b>
<b>Deferred tax liabilities</b>				
Investments with repurchase agreements	4,520		3,323	7,843
Depreciation and price-level restatement of fixed assets	4,257		5,747	10,004
Transitory assets	3,536	1,028	185	4,749
Other adjustments	2,312	5,505	(1,530)	6,287
<b>Subtotal</b>	<b>14,625</b>	<b>6,533</b>	<b>7,725</b>	<b>28,883</b>
<b>Deferred taxes with an effect on equity</b>				
Valuation adjustment on available-for-sale investments		(479)	(2,939)	(3,418)
<b>Total deferred tax on equity</b>		<b>(479)</b>	<b>(2,939)</b>	<b>(3,418)</b>
<b>Total deferred tax liabilities</b>	<b>14,625</b>			<b>25,465</b>

(1)

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For presentation purposes, deferred income tax balances as of December 31, 2007 are presented on a historical basis. For comparison purposes, price-level restated amounts for 2007 correspond to MCh\$49,042 for net deferred tax assets and MCh\$15,927 for net deferred tax liabilities.

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**27. Deferred and Current Tax (continued)***(b) Current tax*

As of December 31, 2008 and 2007, Current Tax is detailed as follows:

## i. Income tax payable:

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
Income taxes, 17% rate	28,551	45,091
Less:		
Monthly prepaid taxes (PPM)	(20,594)	(33,909)
PPM on accumulated losses		(7)
Credit for training expenses	(978)	(1,409)
Credit for purchase of fixed assets	(21)	(394)
Other	(509)	(319)
<b>Total</b>	<b>6,449</b>	<b>9,053</b>

## ii. Income tax:

Income taxes as presented in the Consolidated Statements of Income for the years ended December 31, 2006, 2007 and 2008 are summarized as follows:

	Years ended December 31,		
	2006	2007	2008
	MCh\$	MCh\$	MCh\$
Current income tax provision	(18,564)	(24,285)	(43,920)
Deferred tax effect for the year	(8,563)	(3,624)	9,495
Non-deductible expenses Art. 21	(1,055)	(1,407)	(2,485)
State tax for foreign branches			(900)
<b>Income taxes expense</b>	<b>(28,182)</b>	<b>(29,316)</b>	<b>(37,810)</b>

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In the ordinary course of business, Banco de Chile and its subsidiaries act as defendant or co-defendant in various litigation matters. Although there can be no assurances, Banco de Chile's management believes, based on information currently available, that the ultimate resolution of these legal proceedings are not likely to have a material adverse effect on its results of operations, financial condition, or liquidity. Banco de Chile has established provisions for legal contingencies in the amount of MCh\$1,109 and MCh\$483 as of December 31, 2007 and 2008, respectively.

*(b) Contingent loans*

The following table details the contractual amounts of transactions that obligate the Bank to grant loans and the provisions established for the associated credit risk:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2008</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Immediate available lines of credit	2,032,249	1,644,907
Amounts available to credit card holders	1,232,347	1,468,332
Bank guarantees	1,015,039	1,111,018
Provision for bank guarantees		(4,530)
Guarantees	175,406	212,914
Provision for guarantees		(535)
Documented letters of credit	252,225	154,848
Provision for documented letters of credit		(515)
<b>Total</b>	<b>4,707,266</b>	<b>4,586,439</b>

*(c) Fiduciary activities*

The following items are recorded in memorandum accounts by Banco de Chile and represent fiduciary safekeeping and custody services:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2008</b>
	<b>MCh\$</b>	<b>MCh\$</b>
Securities held in safe custody	1,714,726	27,103,941
Amounts to be collected on behalf of domestic third parties	291,839	243,254
Amounts to be collected on behalf of foreign third parties	168,721	149,785
<b>Total fiduciary activities</b>	<b>2,175,286</b>	<b>27,496,980</b>



**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

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**28. Commitments and contingencies (continued)***(d) Guarantees granted***i. In subsidiary Banchile Administradora General de Fondos S.A.:**

In compliance with article 226 and subsequent articles of Law 18,045, Banchile Administradora General de Fondos S.A., has designated Banco de Chile as the representative of the beneficiaries of the guarantees it has established and in that character the Bank has issued bank guarantees totaling UF 1,853,818, maturing January 9, 2009.

**ii. In subsidiary Banchile Corredores de Bolsa S.A.:**

For the purposes of ensuring correct and complete compliance with all of its obligations as a broker-dealer entity, in conformity with the provisions of article 30 and subsequent articles of Law 18,045 on Securities Markets, the subsidiary established a guarantee in an insurance policy for UF 20,000, insured by Cía. de Seguros de Crédito Continental S.A., that matures April 22, 2010, whereby the Securities Exchange of the Santiago Stock Exchange was appointed as the subsidiary's creditors representative.

	As of	
	December 31,	December 31,
	2007	2008
	MCh\$	MCh\$
<b>Guarantees:</b>		
Shares to secure short-sale transactions in:		
Securities Exchange of the Santiago Stock Exchange	1,347	6,033
Securities Exchange of the Electronic Stock Exchange of Chile	34,207	22,764
Money Market to Pershing Division of Donaldson, Lufkinn & Jenrette Securities Corporation	64	78
Bank guarantee	11	
<b>Total</b>	<b>35,629</b>	<b>28,875</b>

In conformity with the provisions of internal stock market regulations, and for the purpose of securing the broker's correct performance, the company established a pledge on its share of the Santiago Stock Exchange in favor of that institution, as recorded in Public Deed on September 13, 1990, signed before Santiago public notary Mr. Raúl Perry Pefaur, and on its share in the Electronic Stock Exchange of Chile in favor of that institution, as recorded in a contract entered into by both parties on May 16, 1990.

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**28. Commitments and contingencies (continued)**

*(d) Guarantees granted (continued)*

Banchile Corredores de Bolsa S.A. keeps an insurance policy current with La Interamericana - Compañía de Seguros Generales S.A. that expires January 2, 2009, and that covers employee fidelity, physical losses, falsification or adulteration, and currency fraud with a coverage amount equivalent to US\$ 5,000,000.

**iii. In subsidiary Banchile Corredores de Seguros Ltda.:**

In accordance with article 58, letter D of D.F.L. 251, as of December 31, 2008 the company maintains two insurance policies that cover it in the case of possible damage as a consequence of infractions of the Law, regulations and supplemental standards that regulate insurance brokers, and especially when the noncompliance is related to acts, errors or omissions by the broker, its representatives, attorneys-in-fact or dependents that participate in brokerage activities.

The policies are detailed below:

- a) Liability policy for errors and omissions: For U.F. 60,000. The insurance company is entitled to present a counterclaim against the broker for of the disbursements the broker would have made to pay third-parties affected by faulty brokerage by the broker.
- b) Civil liability policy: For UF 500 in order to safeguard the broker against any possible third-party lawsuits. The insurance company is entitled to request reimbursement from the broker for the amount paid to the third-party claimant.

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**29. Concentrations of Credit Risk**

Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of parties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Pursuant to Chilean banking regulations, significant exposure exists when the concentration of any individual customer or counterparty exceeds ten percent of Banco de Chile's effective equity. Banco de Chile does not have a significant exposure to any individual customer or counterparty.

*Counterparty risk*

Banco de Chile maintains a series of deposits, securities purchased under resell agreements, forward contract agreements and other financial instruments with institutions in the Chilean banking sector. The principal counterparties within the Chilean banking sector, excluding the Central Bank, and Banco de Chile's related exposure to credit risk, as of December 31, 2007 and 2008 are as follows:

Bank	Counterparty Risk	
	As of December 31,	
	2007	2008
	MCh\$	MCh\$
Banco Santander - Chile	81,714	188,888
BBVA Banco Bhif	46,187	95,292
Banco de Crédito e Inversiones	31,393	97,151
Corpbanca	27,726	63,936
Banco del Estado de Chile	17,815	86,176
BankBoston N.A.-ITAU	13,350	16,595
Deutsche Bank (Chile)	12,308	14,146
Banco Bice	7,586	37,978
Banco Security	7,211	22,941
ABN Amro Bank (Chile)	6,876	23,188
HSBC Bank Chile	6,219	17,327
Banco Penta	5,581	124
Banco Falabella	5,550	15,267
Citibank N.A.	5,494	
Scotiabank Sud Americano	3,735	44,952
Banco Ripley	3,237	4,111
JP Morgan Chase Bank	2,545	20,360
Banco del Desarrollo	1,919	9,938
Banco Internacional	1,396	1,537
Banco Monex	631	986
Banco Paris	323	2,084
HNS Banco		61
Banco Do Brasil S.A.		959
<b>Total</b>	<b>288,796</b>	<b>763,997</b>

Banco de Chile maintains a policy of placing deposits with a number of different financial institutions and does not believe that any one of these banks represents an unacceptable credit risk. Banco de Chile does not usually require collateral from these counterparties.



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**30. Sales and Purchases of Loans**

From time to time, Banco de Chile sells and purchases loans based on specific requirements from customers. During the years ended December 31, 2006, 2007 and 2008, Banco de Chile sold loans totaling MCh\$33,058, MCh\$4,367 and MCh\$73,162, respectively, however, Banco de Chile does not generally originate loans for future sale. Banco de Chile did not retain servicing or any other interest in the loans sold or retains any risks in the event of non-collection by the purchaser. During the year ended December 31, 2007 and 2008, Banco de Chile purchased loans amounting to MCh\$10,488 and M\$114,442 respectively. 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\$903, MCh\$6 and MCh\$711 for the years ended December 31, 2006, 2007 and 2008, respectively.

**31. 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, 2008.

	As of December 31, 2008				Total 2008 MCh\$	Total 2007 MCh\$
	Due within 1 year MCh\$	Due after 1 year but within 3 years MCh\$	Due after 3 years but within 6 years MCh\$	Due after 6 years MCh\$		
<b>ASSETS</b>						
Cash and due from banks	751,223				751,223	405,194
Transactions in the course of collection	469,580				469,580	330,978
Trading securities	679,843				679,843	1,537,522
Securities purchased under resale agreement	75,519				75,519	75,283
Derivative instruments	593,300	118,958	108,219	84,249	904,726	88,331
Loans and advance to banks(*)	322,308				322,308	303,392
Loans to customers (*)	6,120,876	2,603,322	1,797,670	2,934,948	13,456,816	11,368,943
Available for sale instruments	687,112	113,257	121,257	149,812	1,071,438	
<b>Total assets</b>	<b>9,699,761</b>	<b>2,835,537</b>	<b>2,027,146</b>	<b>3,169,009</b>	<b>17,731,453</b>	<b>14,109,643</b>
<b>LIABILITIES</b>						
Currents accounts and other demand deposits	3,007,261				3,007,261	2,735,681
Transactions in the course of payment	141,988				141,988	75,801
Securities sold under repurchase agreement	420,658				420,658	386,794
Saving accounts and time deposits(**)	7,739,224	576,095			8,315,319	6,982,719
Derivative instruments	595,315	99,888	92,362	75,234	862,799	130,856
Borrowings from financial institutions	1,318,978	179,571			1,498,549	933,631
Debt issued	497,277	451,265	718,750	233,296	1,900,588	1,760,400

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Other financial obligations	49,477	13,068	5,183	25,980	93,708	68,652
<b>Total liabilities</b>	<b>13,770,178</b>	<b>1,319,887</b>	<b>816,295</b>	<b>334,510</b>	<b>16,240,870</b>	<b>13,074,534</b>

(\*) These balance are not presented net of their related provisions

(\*\*) Exclude term saving accounts

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During 2008, the following expenses were recorded as a result of the merger between Banco de Chile and Citibank Chile:

	<b>As of December 31, 2008 MCh\$</b>
Staff severance indemnities and personnel bonuses	34,962
Write-off of fixed assets and intangibles assets	3,374
Computer development	2,020
Advertising	1,559
Training and other personnel expenses	978
Other	1,869
<b>Total</b>	<b>44,762</b>

**33. Relevant Events:**

(a) On January 1, 2008, the merger of Banco de Chile with Banco Citibank Chile was effective, thus complying with the agreement reached in the respective Extraordinary Shareholders Meetings held on December 27, 2007. Consequently, beginning on that date, Banco de Chile is the legal successor entity of Citibank Chile.

The SBIF approved the merger by Resolution No. 3 dated January 8, 2008.

(b) On December 31, 2007, Banco de Chile and Citibank N.A. entered into a Share Purchase Sale and Assumption of Liabilities Agreement for its branches in Miami and New York, effective January 1, 2008, by which Citibank N.A. acquired their assets and assumed their liabilities with certain exclusions, subject to the authorization of the Office of the Comptroller of the Currency (OCC) and the Federal Reserve Bank of Atlanta, paying to Banco de Chile a total price of US\$130 million.

On January 3, 2008, the sale was effective, generating a gain, net of taxes, of MCh\$35,593, recording MCh\$38,459 in other operating income and MCh\$2,866 in income taxes.

(c) In the Ordinary Board of Directors held on January 8, 2008, the Board of Directors accepted the resignation of Mr. Rodrigo Manubens Moltedo and Deputy Director Messrs. Thomas Fürst Freiwirth and Jorge Ergas Heymann as Alternate Directors.

Likewise, the Board of Directors appointed Mr. Raúl Anaya Elizalde as Director, Mr. Rodrigo Manubens Moltedo as First Deputy Director and Mr. Thomas Fürst Freiwirth as Second Deputy Director until the next Ordinary Shareholders Meeting.

Additionally, Mr. Jorge Ergas Heymann was appointed as Board advisor.



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**33. Relevant Events (continued)**

(d) In conformity with authorization from the Superintendency of Banks and Financial Institutions on February 1, 2008, Banco de Chile and its subsidiary Banchile Asesoría Financiera S.A. acquired all of the shares of the company Legg Mason (Chile) Administradora General de Fondos S.A. on February 8, 2008. Banco de Chile acquired 148,793 shares and Banchile Asesoría Financiera S.A. acquired 1 share. The total purchase price for the shares amounted to US\$13,000,000. Therefore, Legg Mason (Chile) Administradora General de Fondos S.A. became a subsidiary of Banco de Chile.

(e) During March 2008, in accordance with the agreement reached in the Extraordinary Shareholders Meeting held May 17, 2007, 120,000,000 shares were subscribed and paid.

(f) In the Ordinary Shareholders Meeting of Banco de Chile held on March 27, 2008, the entire Board of Directors was renewed as the legal and statutory period for Directors of 3 years had expired. Alternate Directors were also appointed.

The following individuals were elected as Directors by shareholder vote at the aforementioned meeting for a new period of three years:

Directors: Raúl Anaya Elizalde  
Jorge Awad Mehech  
Jacob Ergas Ergas  
Jaime Estévez Valencia  
Juan Andrés Fontaine Talavera  
Pablo Granifo Lavín  
Andrónico Luksic Craig  
Guillermo Luksic Craig  
Gonzalo Menéndez Duque  
Francisco Pérez Mackenna  
Fernando Quiroz Robles

Deputy Directors: Rodrigo Manubens Moltedo (First Director)  
Thomas Fürst Freiwirth (Second Director)

In the session of the Board of Directors held on March 28, 2008, the following appointments were agreed:

President: Pablo Granifo Lavín  
Vice President: Andrónico Luksic Craig

Advisors: Hernán Büchi Buc  
Jorge Ergas Heymann  
Francisco Garcés Garrido



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**33. Relevant Events (continued)**

(g) In the Ordinary Session of the Board of Directors held on April 24, 2008, the Board of Directors agreed to set a minimum auction price of Ch\$38.80 per share for 319,951,628 new shares.

On May 5, 2008, Banco de Chile communicated that as a consequence of the full subscription and payment of 319,951,628 new shares of Banco de Chile, which were auctioned on April 30, 2008 at the Santiago Stock Exchange, the capital increase of 2,516,010,979 new shares, agreed upon by shareholders at the Extraordinary Shareholders Meeting held May 17, 2007, has been fully subscribed and paid.

In this way, Banco de Chile's paid-in capital is divided into 80,879,895,984 nominative shares with no par value, fully subscribed and paid.

(h) In the Extraordinary Shareholders Meetings of the subsidiaries Banchile Administradora General de Fondos S.A. and Banedwards Administradora General de Fondos S.A., (formerly Legg Mason (Chile) Administradora General de Fondos S.A.) held on May 8, 2008, shareholders approved the merger between Banedwards Administradora General de Fondos S.A. and Banchile Administradora General de Fondos S.A., modifying the by-laws of the latter. This merger and by-law modification were approved by the Superintendency of Securities and Insurance through Exempt Resolution No. 371 and certified on June 12, 2008, and was recorded in the Commerce Registry of the Santiago Real Estate Registrar on page 26,455 No. 18,139 dated June 13, 2008 and published in the Diario Oficial on June 14, 2008.

As a result of the above-mentioned merger, the subsidiary Banedwards Administradora General de Fondos S.A., (formerly Legg Mason (Chile) Administradora General de Fondos S.A.) was dissolved.

(i) On December 23, 2008, Banco de Chile and Compañía Nacional de Teléfonos, Telefónica del Sur S.A. ( Telsur ) agreed to enter into a Trade Agreement in order to optimize the placement and use of credit cards issued by the Bank. This commercial alliance to implement a system linked to credit cards issued by the Bank will provide discounts, benefits and incentives to be given to clients of both the Bank and Telsur.

The Bank's Board of Directors approved the Trade Agreement as the conditions and benefits are favorable for Banco de Chile and reflect arm's length conditions.

(j) On December 30, 2008, Banco de Chile and Banchile Seguros de Vida S.A. agreed to enter into a Mortgage Life Insurance Agreement that states the particular terms for mortgage life insurance contracted with Banchile Seguros de Vida S.A. by Banco de Chile for its debtor's portfolio.

Banchile Seguros de Vida S.A. is a related company of Banco de Chile based on the provisions of article 44 of the Corporations Law and the Bank's Board of Directors deemed the price and other terms to reflect arm's length conditions.

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles**

The following is a description of the significant quantitative differences between accounting principles as prescribed by the Superintendency of Banks and accounting principles generally accepted in Chile (collectively Chilean GAAP), and accounting principles generally accepted in the United States of America (U.S. GAAP).

References below to SFAS are to United States Statements of Financial Accounting Standards. Pursuant to Chilean GAAP, the Bank's financial statements recognize certain effects of inflation. In addition, the Bank translates the accounting records of its subsidiary Banchile Trade Services Limited in Hong Kong to Chilean pesos from US dollars in accordance with guidelines established by the Superintendency of Banks, which are consistent with Technical Bulletin N°64, Accounting for Investments Abroad, issued by the Chilean Association of Accountants. In the opinion of the Bank, this foreign currency translation methodology forms part of the comprehensive basis of preparation of price-level adjusted financial statements required by Chilean GAAP. Inclusion of inflation and the effects of translation in the accompanying consolidated financial statements under the Chilean accounting standards in the financial statements is considered appropriate under the inflationary conditions that have historically affected the Chilean economy even though the cumulative inflation rate for the last three years does not exceed 100% and, accordingly have not been eliminated in the reconciliation to U.S. GAAP included under paragraph (q) below.

*(a) Merger of entities under Common Control Banco de Chile - Banco de A. Edwards*

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.

The effects of accounting for the push down of these purchase accounting adjustments, goodwill and any equity participation in the results of operations of the acquired banks into the accounting records of the Bank and their subsequent effects on net income is included in paragraph (q), below.

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The parent company of the Bank, SM Chile S.A. ( SM-Chile ) has a subordinated debt that arose during and as a result of the economic crisis in 1982-1983. From 1984 through 1986, the predecessor entity, the former Banco de Chile, sold certain of its non-performing loans to the Chilean Central Bank at face value on terms that included a repurchase obligation. This was one of the mechanisms used by the Central Bank of Chile to deal with the economic crisis. In 1989, the repurchase obligation was exchanged for subordinated debt issued in favor of the Central Bank of Chile. In 1996, a reorganization took place by in which the former Banco de Chile was converted to a holding company named SM Chile, which in turn formed a new wholly-owned banking subsidiary named Banco de Chile to which SM Chile contributed all of its assets and liabilities other than the subordinated debt payable to the Central Bank. SM Chile then created a second wholly owned subsidiary named SAOS, which pursuant to a prior agreement with Central Bank, assumed a new repayment obligation which replaced the previous subordinated debt in its entirety.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM Chile shares of the Bank as collateral for this indebtedness. As of December 31, 2008, SAOS holds 35.35% of the Bank shares as collateral for this subordinated debt obligation. As stated by the Law, in exchange for securing the subordinated debt by pledging the Bank shares held by SM-Chile, SM-Chile shareholders were granted the right of first refusal in the event that SAOS is required by Central Bank to sell all or a portion of the pledged shares to cover any unpaid balance. Additionally, the Law stated that voting rights of the pledged shares are to be held by SM-Chile shareholders. Dividends received from the Bank are the sole source of SAOS' s revenues and must be used to repay this indebtedness.

As of December 31, 2008 the outstanding subordinated debt balance held by SAOS amounted to MCh\$920,227. During the years 2006, 2007 and 2008, SAOS paid to the Central Bank a total of MCh\$90,539, MCh\$91,308 and MCh\$98,137, exceeding in all these three years the required minimum annual payment.

Pursuant to the law, SAOS and SM-Chile will be automatically dissolved upon extinction of the debt, either by full payment or execution of the collateral. Under the terms of SM-Chile' s bylaw and the Law, all the outstanding shares of the Bank held by SM-Chile and SAOS, as well as any other remaining asset, will be then distributed to SM-Chile shareholders.

As of December 31, 2008, major shareholders of SM-Chile are LQ Inversiones Financieras S.A. and Inversiones LQ-SM S.A., both subsidiaries of Quiñenco S.A., having a participation of 47.13% and 11.11% of total shares, respectively. Likewise, major shareholders of Banco de Chile are SAOS S.A., LQ Inversiones Financieras S.A. and SM-Chile having a participation of 35.35%, 32.11% and 15.01% of total shares, respectively.

SAOS is variable interest entity (VIE) as defined in FASB Interpretation No. 46(R) Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46R). In accordance with FIN 46R, the primary beneficiary is the party that consolidates a VIE based on its assessment that it will absorb a majority of the expected losses or expected residual returns of the entity, or both. The Bank has determined that it is not the primary beneficiary of SAOS and, therefore, it has not consolidated SAOS in the Consolidated Financial Statements of Banco de Chile.

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Under U.S. GAAP, to the extent that the Predecessor Banks were under common control, the assets and liabilities of Banco de A. Edwards were transferred into Banco de Chile using the U.S. GAAP carrying values of such assets and liabilities included in the records of the common parent. However, as Quiñenco only owned 51.18% of Banco de A. Edwards at the time of the merger, to the extent that the minority interest of Banco de A. Edwards was acquired through the issuance of Banco de Chile shares, Banco de Chile was considered the acquirer.

Therefore, Banco de Chile calculated goodwill based on the difference between the purchase price (i.e. the market value of the shares issued by Banco de Chile) and the fair value of the proportion of assets and liabilities acquired at the date of the merger. As part of this process, under U.S. GAAP, Banco de Chile was also required to value the interest acquired of previously unrecorded intangible assets, such as the Banco de Edwards brand name and core deposit intangibles, and to include these assets in the financial records of the Bank. Such assets were not required to be recorded under existing Chilean GAAP at that time.

As a consequence of the merger between Banco de Chile and Banco de A. Edwards, Banco de Chile issued 23,147,126,425 shares in exchange for all the outstanding common shares of Banco de A. Edwards using an exchange ratio of 3.135826295 Banco de Chile shares for each Banco de A. Edwards share. Under U.S. GAAP Banco de Chile was considered to have acquired 48.82% of the outstanding shares in Banco de A. Edwards, which corresponded to those shares that Quiñenco did not own as of that date. The acquisition of these shares has been accounted for using purchase accounting as described in the preceding paragraph. The consideration paid has been determined using an average of the market value of the publicly traded Banco de Chile shares, which at January 1, 2002 was Ch\$25,110.17 (historical Chilean pesos) per share, plus merger expenses.

Under U.S. GAAP, purchase allocation of the 48.82% participation acquired from shareholders other than Quiñenco and its subsidiaries as of January 1, 2002 was as follows:

	<b>MCh\$</b>
Net book value of Banco de A. Edwards	154,160
Incremental fair value of identified intangible assets (1)(2)	39,892
Fair value increment of identified net assets acquired	(57,524)
Fair value of Banco de A. Edwards	136,528
Purchase price	
Market value of Banco de Chile shares issued	(374,322)
Direct costs of acquisition	(1,504)
Goodwill	(239,298)
Core deposits acquisition	35,525
Brand name intangibles	4,367

(1)

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Core deposit intangibles resulting from the acquisition amounted to MCh\$35,525 and is being amortized over the estimated run-off period by product of the acquired customer base at the date of purchase.

- (2) Brand name intangibles resulting from the acquisition amounted to MCh\$4,367 and is being amortized over 10 years.

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

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

	As of January 1, 2002 MCh\$
Cash and due from banks	157,088
Financial investments	232,102
Loans, net	1,346,063
Intangibles	39,892
Other	107,817
<b>Total assets acquired</b>	<b>1,882,962</b>
Deposits	1,067,638
Other interest bearing liabilities	585,746
Other liabilities	93,050
<b>Total liabilities assumed</b>	<b>1,746,434</b>
<b>Net assets acquired</b>	<b>136,528</b>

Of the MCh\$39,892 of acquired intangible assets, MCh\$35,525 was assigned to core deposits subject to amortization (using an estimated rate that the bank's customers are expected to leave the bank in future years, based on a historical analyses performed by the Bank), and MCh\$4,367 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 (d) below.

*(c) Merger of entities under Common Control Banco de Chile - Citibank Chile*

In 2007, Quiñenco (parent company of Banco de Chile) and Citigroup Inc (including Citibank Overseas Investment Corporation (COIC)) signed a Master agreement, whereby a strategic association was established.

The final purpose of this association is to mutually leverage their local financial services business as result of being highly complementary businesses and for Banco de Chile get the benefits of becoming an associate of a globally known banking network such as Citibank.

On January 1, 2008, Banco de Chile successfully merged its operations with those of Citibank Chile, increasing its market participation by 1.7%, incorporating more than 50 thousand new clients, mainly multinational companies and consumer banking. The distribution network was also strengthened adding in January 2008, more than 100 branches and points of sale to the already existing ones.

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A significant benefit to the operations of Banco de Chile was the strengthening of its Treasury, investment and private banking operations as result of the inclusion of Citibank well known financial know-how on these areas. Complementary to this, more robust and sophisticated processes and systems were implemented to control the enhanced management of financial and market risk.

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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, 2008)**

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

*(c) Merger of entities under Common Control Banco de Chile - Citibank Chile (continued)*

Under Chilean GAAP, the merger between Banco de Chile and Citibank Chile was accounted for as a pooling of interest in accordance to Technical Bulletin N° 72. (BT 72). As such, the historical financial statements for periods prior to the merger are not restated and Banco de Chile is considered to be the continuing entity for legal and accounting purposes. On January 1, 2008, Citigroup Inc. transferred its 100% interest in the net assets of Citigroup Chile II (Parent company of Citibank Chile) to LQ Inversiones Financieras (LQIF), a subsidiary of Quíenco through which it controls Banco de Chile. In exchange, LQIF issued 220,558,398 series B shares to Citigroup Chile representing 32.9556% of its equity shares as consideration price. Additionally, pursuant to the terms of calls and put options Citigroup has the right to acquire up to an additional approximately 16% of LQIF at a pre-agreed upon price, and under certain conditions, Quíenco can force Citigroup to acquire approximately 8% of LQIF. The fair value of these financial instruments are part of the consideration exchanged and are included in the purchase accounting. Accordingly, as of this date LQIF took control of Citigroup Chile II net assets. Subsequently and as of the same date, LQIF transferred its 100% acquired interest in Citigroup Chile II (Citibank Chile and Subs) to Banco de Chile in exchange of Banco de Chile series S shares. In exchange a total of 8,443,861,140 no-par Banco de Chile S-Series shares were issued to LQIF.

As described above, under Chilean GAAP, the merger of Banco de Chile and Citibank Chile was accounted for as a pooling of interest beginning January 1, 2008 with no retroactive restatement of historical financial statements.

Under U.S. GAAP, when accounting for a merger of entities under common control, the entity that receives the net assets initially recognizes the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity. This means, the goodwill and purchase accounting adjustments previously created in the LQIF books, at the time that it acquired Citibank Chile, must be included in the U.S. GAAP accounting records of the merged Banks.

The effects of accounting for these purchase accounting adjustments into the accounting records of the Bank and their subsequent effects on net income is included in paragraph (q), below.

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(c) Merger of entities under Common Control Banco de Chile - Citibank Chile (continued)*

Under U.S. GAAP, the purchase price allocation of above mentioned transaction as of January 1, 2008 was as follows:

	MCh\$
<b>Purchase consideration</b>	
Consideration paid	701,825
Less cash received	(186,402)
Less put option received	(93,592)
<b>Net purchase consideration</b>	<b>421,831</b>
<b>Net assets acquired</b>	
Book value of Citibank Chile net assets	350,251
Incremental fair value of identified intangible assets	59,360
Fair value increment of identified net assets acquired	10,355
Deferred taxes on net assets acquired	(11,852)
<b>Total net assets acquired</b>	<b>408,114</b>
<b>Goodwill</b>	<b>13,717</b>
Core deposits intangible (1)	24,891
Brands (2)	18,182
Customer list(2)	16,287
Total incremental fair value of identified intangible assets acquired	59,360

(1) Core deposit intangible is amortized over the estimated clients run-off period.

(2) Customer list intangibles are amortized over their estimated useful life. Brand name intangibles are not amortized but are subject to periodic impairment testing as required by SFAS 142.

Goodwill generated in this transaction by reportable business segment, which is also included under paragraph (d) below, is the following:

<b>Business Segments</b>	<b>MCh\$</b>
Wholesale	2,330
Retail Market	6,465
Treasury	4,922

**Total goodwill**

**13,717**

The Bank does not amortize goodwill related to the acquisition of Citibank Chile following the provisions of SFAS No. 142, as described in paragraph (d) below.

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(c) Merger of entities under Common Control Banco de Chile - Citibank Chile (continued)*

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

	As of January 1, 2008 MCh\$
Cash and due from banks	311,000
Financial investments	360,455
Derivatives instruments	352,320
Loans	1,202,951
Intangibles	59,360
Other	91,018
<b>Total assets acquired</b>	<b>2,377,104</b>
Deposits	1,342,858
Other interest bearing liabilities	148,077
Derivatives instruments	346,882
Other liabilities	131,173
<b>Total liabilities assumed</b>	<b>1,968,990</b>
<b>Net assets acquired, net of deferred taxes</b>	<b>408,114</b>

*(d) Amortization of Goodwill*

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. As of December 31, 2008, under Chilean GAAP, the Bank presents only goodwill arose from the Legg Mason (Chile) acquisition. Under U.S. GAAP, the carrying value of goodwill, net of accumulated amortization, comprises goodwill arising from to push-down accounting as result of the above described merger of entities under common control, the acquisition of Banco de A. Edwards and Legg Mason (Chile), described in paragraphs (a), (b) and (c) and its total balance were MCh\$409,981, MCh\$13,717, MCh\$239,298 and MCh\$4,987, respectively.

The table below presents the allocation of the total carrying value of goodwill by segments of the Bank at the end of each year:

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	2007	2008
<b>Business Segments</b>	<b>MCh\$</b>	<b>MCh\$</b>
Wholesale	412,136	414,465
Retail Market	194,514	200,979
International	50,803	
Treasury	13,511	18,434
Subsidiaries	29,118	34,105
<b>Total goodwill</b>	<b>700,082</b>	<b>667,983</b>

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

*(d) Amortization of Goodwill (continued)*

As further described in paragraphs (p), Banco de Chile US Branches were sold on January 3, 2008. As a result of this transaction, the international segment has been discontinued and accordingly, goodwill allocated to this segment as of January 1, 2008 for an amount of MCh\$50,803 has been derecognized. See the subsequent effects on net income included in paragraph (q), below.

*(e) Deferred Income taxes*

Under Statement of Financial Accounting Standard No. 109 ( SFAS 109 ), Accounting for Income Taxes , income taxes are recognized using the liability method in a manner similar to Chilean GAAP.

Additional disclosures required under SFAS No. 109 are further described in paragraph (u) below.

*(f) Investments in other companies*

As shown in Note 11, 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 equity in paragraph (q) below.

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

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

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

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

*(h) Contingent loans*

Under Chilean GAAP, the Bank includes in off balance accounts 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. The required FIN 45 disclosures have been incorporated into paragraph (z), below.



**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, 2008)****34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(i) Allowance for loan losses*

The determination of the allowance for loan losses and disclosure requirements under U.S. GAAP differs from that under Chilean GAAP in the following respects:

## 1) Allowance for loan losses

Under Chilean GAAP, the allowance for loan losses is calculated according to specific guidelines set out by the rules of the Superintendency of Banks, as described in Note 1 (i).

Under U.S. GAAP allowances for loan losses should be in amounts adequate to cover inherent probable losses in the loan portfolio at the respective balance sheet dates. The Bank has estimated its required reserve under U.S. GAAP in the following manner:

i) Commercial loans and leasing operations considered not impaired under Statement of Financial Accounting Standard No. 114, *Accounting by Creditors for Impairment of a Loan* ( SFAS No. 114 ), were analyzed and adjusted, if necessary, to reflect the estimated losses not identified based on individual credit analysis. The estimations were performed using historical loan data, in order to estimate the inherent losses in the Bank's loan portfolio, using patterns and trends based upon historical changes in loan classifications ( migration analysis ).

ii) Commercial loans and leasing operations considered impaired in accordance with the criteria established by SFAS No. 114, were valued at the present value of the expected future cash flows discounted at the loan's effective contractual interest rate, or at market rates in the case of those loans that were considered to be collateral dependent.

iii) Allowance for loan losses for mortgage and consumer loans were determined using risk matrix models including historical loan charge-offs net of recoveries and other variables to adjust changes in trends and conditions.

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.

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2008</b>
	<b>MCh\$</b>	<b>MCh\$</b>
U.S. GAAP loan loss reserve	139,772	209,507
Less: Chilean GAAP loan loss allowance as required by the Superintendency of Banks	(146,775)	(227,201)
<b>U.S. GAAP adjustment</b>	<b>(7,003)</b>	<b>(17,694)</b>

The effects of adopting SFAS No. 114 are included in the reconciliation included in paragraph (q) below.

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

(i) Allowance for loan losses (continued)

## 2) Interest income and impaired loans Additional disclosures

As of December 31, 2006, 2007 and 2008 the recorded investment in loans for which impairment had been recognized in accordance with SFAS No.114 totaled MCh\$423,226, MCh\$421,868 and MCh\$679,323 respectively, with a corresponding valuation allowance of MCh\$80,324, MCh\$78,234 and MCh\$145,817, respectively. For the years ended December 31, 2006, 2007 and 2008 the average recorded investment in impaired loans was MCh\$427,474, MCh\$401,748 and MCh\$563,188, respectively. For the years ended December 31, 2006, 2007 and 2008, the Bank recognized interest on impaired loans MCh\$31,825, MCh\$43,733 and MCh\$42,533. The Bank recognizes interest on impaired loans on an accrual basis, except for past due loans for which the Bank recognizes interest on a cash basis, as described in paragraph (g) above. As of December 31, 2007 and 2008, the Bank had made provisions against all loans which it considered to be impaired.

The following presents an analysis under U.S. GAAP of the changes in the allowance for loan losses during the periods presented.

	As of December 31,		
	2006 MCh\$	2007 MCh\$	2008 MCh\$
Allowance for loan losses in accordance with U.S. GAAP, as of January 1,	116,756	137,238	139,772
Price-level restatement (1)	(2,829)	(9,647)	(12,350)
Charge-offs	(70,937)	(77,913)	(104,895)
Loan loss recoveries	32,866	38,250	39,648
Allowances for loan losses established	61,361	51,844	147,341
Allowances for loan losses released	21		(9)
<b>Balances as of December 31,</b>	<b>137,238</b>	<b>139,772</b>	<b>209,507</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, 2008.

## 3) Charge-offs

As discussed in Note 1 (i) of these financial statements, under Chilean GAAP the Bank charges-off loans when collection efforts have been exhausted. Under the rules and regulations established by the Superintendency of Banks, charge-offs must be made within the following maximum prescribed limits:

- 24 months after a loan is past due (3 months after past due for consumer loans) for loans without collateral;

- 36 months after a loan is past due for loans with collateral.

Under U.S. GAAP, loans should be written-off in the period that they are deemed uncollectible. The Bank believes that the charge-off policies it applies in accordance with Chilean GAAP are generally the same as those required under U.S. GAAP.



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

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

4) Loan Purchases

On a non-recurring basis, the Bank acquires non-impaired loans directly from the market or from other financial institutions, mainly to meet its customer requirements. Under Chilean GAAP, loans purchased are recorded at fair value (price paid) when acquired, classified and recorded in the loan portfolio line item to which it relates and any discount or premium is recognized as an adjustment to interest income using the effective interest rate method. Other than certain loans acquired from Citibank, as result of the merger transaction described above, the Bank does not purchase loans that are deemed impaired at the acquisition date.

Under US GAAP, the Bank applies the requirements of the Statement of Financial Accounting Standards No. 91 ( SFAS 91 ), Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases to non-impaired loans . When discounts or premiums are attributable to the credit quality of the purchased loan, the accounting treatment for this differences is prescribed by the Statement of Position (SOP) No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3).

SFAS 91 states that any purchase premiums or discounts on loans shall be recognized as an adjustment of yield generally by the effective interest method based on the contractual terms of the loan. SOP 03-3 requires acquired loans to be recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. Furthermore SOP 03-3 limits the yield that may be accreted (accretable yield) to the excess of the undiscounted expected cash flows over the investor's initial investment in the loan. The excess of the contractual cash flows over expected cash flows (nonaccretable yield) may not be recognized as an adjustment of yield, loss accrual or valuation allowance. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as impairments. Considering that the Bank is not engaged, on a regular basis, in the purchase of impaired loans and the accounting treatment between Chilean and US GAAP for discounts or premiums as result of the acquisition of non-impaired loans does not differ, no significant differences arise.

During the years ended December 31, 2006, 2007, and 2008, Banco de Chile purchased non-impaired loans amounting to MCh\$189,470, MCh\$135,637 and MCh\$114,442.

As mentioned above, the Bank acquired certain impaired loans from Citibank as result of the merger transaction. Under Chilean GAAP, these loans were recorded at their previous carrying amounts, including their related loan loss allowance. For US GAAP purposes, the Bank recorded these loans at fair value at the acquisition date, not carrying over any loan loss allowance as required by SOP 03-3.

*(j) Reversal of additional Allowance for Loans Losses*

Under Chilean GAAP, the Bank historically has followed the practice of maintain additional loan loss allowance as part of the determination of allowance for loan losses. From January 1, 2008 due to changes in format for the presentation of financial statements, this concept is recorded under Operating Expenses . For U. S. GAAP purposes, historically this item has not been considered in the determination of the reserve requirements under U.S. GAAP and, accordingly it have been eliminated in the reconciliation to U.S. GAAP included under paragraph (q) below.

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(k) Financial investments*

Under Chilean GAAP, until December 31, 2005, financial investments were classified as permanent and non-permanent. Beginning 2006 the Bank adopted Circular No.3,345 (the Circular ), issued by the Superintendency of Banks. The Circular, which was based on International Accounting Standard N° 39 Financial Instruments-Recognition and Measurement , established new accounting and classification criteria for investments securities and derivative instruments, among other. The new accounting criteria and classification rules are broadly similar to US GAAP, therefore, beginning 2006 no differences arise for financial investments. See Note 1(f) and 1(g) for further details on Chilean GAAP accounting rules on financial investments.

The following are required disclosures for investments classified as available-for-sale in accordance with SFAS N°115 and the presentation requirements of Article 9 (see paragraph (s) below). The disclosures have been prepared using amounts determined in accordance with U.S. GAAP.

Realized gains and losses are determined using the proceeds from sales less the cost of the investment identified to be sold. For the years ended December 31, 2006 and 2007 no gains and losses realized on the sale of available-for-sale securities were recorded. For year ended December 2008 MCh\$173 was recognized as gain.

The carrying value and market value of investments available-for-sale as of December 31, 2007 and 2008 are as follows:

	Years ended December 31,							
	2007			2008 (**)				
Available-for-sale Instruments:	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses (*)	Estimated Fair Value	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses (*)	Estimated Fair Value
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Instruments issued by the Chilean Government and Central Bank</b>								
Central Bank instruments					382,292	364	(691)	381,965
Treasury bonds or notes payable					30,280		(29)	30,251
Other government instruments					11,502		(36)	11,466
<b>Other instruments issued in Chile</b>								
Instruments issued by other banks					502,754	499	(4,950)	498,303
Bonds and commercial paper issued by companies					49,488		(2,919)	46,569
<b>Instruments issued abroad</b>								
Other instruments issued abroad					106,884	421	(4,421)	102,884
<b>Total</b>					1,083,200	1,284	(13,046)	1,071,438

(\*) Investments with unrealized losses are disclosed and segregated in accordance with FSP SFAS 115-1. The unrealized losses were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the

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amortized cost of the investment. Because the Bank has the ability and intends to hold investment until recovery of its investment, which may be maturity, the Bank does not consider these investments to be other than temporarily impaired.

(\*\*) As is mentioned in note 2 (b), the Bank reclassified certain financial instruments from Trading to Available for Sale as result of the merger transaction. These financial instruments were transferred at their fair value on the transfer date. Previous unrealized gains and losses were not transferred to other comprehensive income.

As of December 31, 2008, total carrying amount and fair value of the available-for-sale portfolio with unrealized losses amounted to MCh\$503,705 and MCh\$490,659, respectively. None of these securities have been in an unrealized loss position for more than 12 months.

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The maturities of the securities trading, held to maturity and available for sale, as of December 31, 2008 was as follows:

	As of December 31, 2008				
	Due within	Due after 1 year	Due after 3 years	Due after 6	Total
	1 year	but within 3 years	but within 6 years	years	2008
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Available for sale instruments	687,112	113,257	121,257	149,812	1,071,438
Total	687,112	113,257	121,257	149,812	1,071,438

The Bank evaluates all investments for declines in value that are considered other than temporary impairment ( permanent impairment ). The Bank charges-off to earnings any amounts which are deemed to be a permanent impairment of the value of that security.

Interest rate and foreign exchange valuation for securities issued in currencies different to the functional currency.

According to SFAS 115 the fair market value adjustment for Available for Sale portfolio is recognized in OCI (Other Comprehensive Income). These adjustments considered the interest rate and foreign exchange valuation when securities are issued in other currencies different to the functional currency. Under Chilean GAAP, the foreign exchange is directly recognized as income and only the interest rate effect is recognized in OCI. The effects of this adjustment is included in the reconciliation present in paragraph (q) below.

*(l) Derivatives*

The Bank enters into derivative transactions for its own account and to meet customers risk management needs. Banco de Chile and its subsidiaries protect themselves against variations in the foreign exchange and interest rate market by using forward contracts, currency swaps and interest rates swaps. These activities include hedging and treasury operations and help Banco de Chile and its subsidiaries provide financial products their clients.

Under Chilean GAAP all financial derivative contracts, which include foreign currency and U.F. forwards, interest rate forwards, currency and interest rate swaps, currency and interest rate options and other financial derivative instruments, are recorded in the balance sheet at cost (including transaction costs) at inception and subsequently measured at their fair value. The fair value is obtained from market quotes, discounted cash flows models and options valuation models, as and where applicable. Derivative contracts are reported as an asset when their fair value is positive and as a liability when negative under the line item Derivative instruments . The gains recognized in income associated with these contracts for the years ended December 31, 2006 and 2008 were MCh\$29,476 and MCh\$351,568 respectively, and the loss recognized in income associated with these contracts for the year ended December 31, 2007 was MCh\$27,466.

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

*(l) Derivatives (continued)*

Under Chilean GAAP, Circular 3,345, certain derivatives embedded in other financial instruments are treated as separate derivatives when their risk and characteristics are not closely related to those of the main contract and this is not recorded at its fair value with its unrealized gains and losses included in income. The above mentioned circular did not include service type contracts when evaluating for embedded derivatives.

See further details about the Chilean accounting treatment of derivative instruments in note 1(e).

Under U.S. GAAP, the Bank applies SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (collectively *SFAS 133*), which established comprehensive accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. The Standard required that all derivative instruments be recorded in the balance sheet at fair value. However, the accounting for changes in fair value of the derivative instrument depends on whether the derivative instrument qualifies as a hedge. The standards also require formal documentation procedures for hedging relationships and effectiveness testing when hedge accounting is to be applied. If the derivative instrument does not qualify as a hedge, changes in fair value are reported in earnings when they occur. If the derivative instrument qualifies as a hedge, the accounting treatment varies based on the type of risk being hedged.

As a result of the new accounting rules adopted in 2006, as set by the circular, no significant differences arise when applying SFAS 133 to derivatives accounting, other than the recognition of certain derivatives embedded in service type contracts.

**Fair Value Hedge**

During 2006, Banco de Chile has entered into an interest rate swap agreement for hedging its interest rate risk exposure related to the subordinated debt issued during 2006. The interest rate swap agreement modifies the Bank's exposure to interest risk by converting its subordinated note's fixed-rate debt to a floating interest. This agreement involves the payment of a fixed rate amount in exchange for floating rate interest payments over the life of the agreement without exchanging any underlying principal.

For the year ended December 31, 2007 and 2008 Banco de Chile recognized in the line item *Gains (losses) from trading and brokerage activities* a net loss of MCh\$810 and MCh\$667 related to the ineffective portion of its hedging instruments.

The effects of the differences in accounting for embedded derivatives between Chilean and U.S. GAAP on the consolidated net income and equity of the Bank are included in paragraph (q) below.

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

*(m) 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.

Until 2007, dividend obligations were recorded when declared by the Shareholders Meeting and a reconciling item was recorded to recognize the minimum dividend liability.

The effects of this adjustment on the equity of the Bank until 2007 are included in paragraph (q) below.

Beginning 2008, as result of the new accounting rules prescribed by the Superintendency of Banks, the Bank is required to record a provision for minimum dividend. Accordingly, as of December 31, 2008 no difference exist between Chilean and U.S. GAAP.

*(n) Assets received in lieu of payment*

Under Chilean GAAP, assets received in lieu of payment are carried at cost and have been restated for price-level changes, less a portfolio valuation allowance if the total of the market value of those assets is lower than the carrying amount. Market value is determined based on appraiser valuations, as required by the Superintendency of Banks. If the asset is not sold within one year, then recorded asset amounts must be written-off on at least a straight-line basis over the following 12-month period.

Under U.S. GAAP, assets received in lieu of payment are initially recorded at fair value less any estimated costs to sell at the date of foreclosure, on an individual asset basis. The effect of recording these assets in accordance with U.S. GAAP is included in the reconciliation of consolidated net income and equity in paragraph (q) below.

*(o) Staff severance indemnities*

The provision for staff severance indemnities relates to a benefit payable to a defined number of employees, upon their retirement from the Bank, conditional upon having completed 30 years of continuous service. The Bank makes indemnity payments upon termination of the applicable employees, and has not set aside assets to fund its benefit obligation. Under Chilean GAAP, the related liability is calculated by discounting the benefit accrued using real interest rates, as described in Note 1(q), considering current salary levels of all employees eligible under the plan and the estimated average remaining service period. Under U.S. GAAP the corresponding liability is recorded using the shutdown method, consistent with the accounting criteria applied by its parent company, Quiñenco.

The effects of accounting for termination indemnity benefits under U.S. GAAP have been presented in paragraph (q), below.

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**BANCO DE CHILE AND SUBSIDIARIES**

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**Chilean pesos as of December 31, 2008)**

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

*(p) Discontinued operations of US Branches*

On December 31, 2007 the Bank and Citibank N.A. signed an Agreement to Purchase the Assets and Assume the Liabilities of the New York and Miami Branches, effective January 1, 2008, by which Citibank N.A. acquired the Bank's branches assets and assumed liabilities, with certain minor exclusions, after receiving authorization from the federal agency Office of the Comptroller of the Currency (OCC) and the Federal Reserve Bank of Atlanta, for a total consideration price of US\$130 million. The branches are included in the total purchase consideration and cash received in the transaction, refer to Note 34 (c)

Under Chile GAAP, the disposal plan of the assets and liabilities of the New York and Miami Branches was not considered as a group of assets and liabilities held for sale and as discontinued operations for presentation purposes due to the immaterial contribution to the consolidated financial statements of the Bank as of December 31, 2007.

Under U.S. GAAP this group of assets and liabilities held for sale are accounted in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. Accordingly, as of this date, the Miami and New York Branches of the Bank were considered as held for sale and were valued at the lower of its carrying amount and fair value less cost of sale for US GAAP purposes.

These subsidiaries were reported as part of the International Banking operating. The sale of these branches was effective on January 1, 2008.

Other than the derecognition of the related goodwill, as recorded for US GAAP purposes, there is no other significant difference between Chilean and US GAAP as result of this disposal. The effects of writing-off the above mentioned goodwill for U.S. GAAP purposes have been presented in paragraph (q), below.

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(q) Summary of Income Statement and Equity differences*

The following is a reconciliation of consolidated net income under Chilean GAAP to the corresponding U.S. GAAP amounts:

	Year ended December 31,			
	2006 MCh\$	2007 MCh\$	2008 MCh\$	2008 ThUS\$
<b>Net income in accordance with Chilean GAAP</b>	<b>228,360</b>	<b>263,852</b>	<b>272,427</b>	<b>433,035</b>
<b>U.S. GAAP adjustments:</b>				
Push Down accounting Banco Edwards (Note 34 (a))				
Fair value of intangibles	(15,638)	(15,638)	(13,975)	(22,214)
Fair value of loans	(1,161)			
Fair value of premises	(279)	(280)	(283)	(450)
Fair value of other	258			
Acquisition of Banco Edwards (Note 34 (b))				
Fair value of intangibles	(3,084)	(2,614)	(2,227)	(3,540)
Fair value of loans	641	1,164	321	510
Fair value of other interest bearing liabilities	4,865	4,320	4,320	6,867
Fair value of premises and others	81	71	71	113
Acquisition of Citibank Chile (Note 34 (c))				
Fair value of Loans			(3,649)	(5,800)
Fair value of intangibles			(5,823)	(9,256)
Fair value of premises			1,061	1,687
Derecognition of goodwill as result of US branches sale			(50,803)	(80,754)
Investments in other companies (Note 34 (f))	(122)	(87)	414	658
Allowance for loan losses (Note 34 (i))	(18,487)	4,238	10,691	16,994
Reversal of additional allowance for loan losses (Note 34 (j))	120	(1,428)	15,664	24,899
Derivatives (Note 34 (l))	(473)	212	(1,004)	(1,596)
Investment securities (Note 34 (k))	81	(68)	(10,464)	(16,633)
Assets received in lieu of payment (Note 34 (n))	1,918	(4,335)	(1,166)	(1,853)
Staff severance indemnities (Note 34 (o))	(510)	(326)	1,367	2,173
Other			541	860
Deferred tax effect of the above U.S. GAAP adjustments (Note 34 (e))	5,577	2,494	(783)	(1,245)
<b>Net income in accordance with U.S. GAAP</b>	<b>202,147</b>	<b>251,575</b>	<b>216,700</b>	<b>344,455</b>
<b>Other comprehensive income, net of tax (Note 34 (v))</b>	<b>367</b>	<b>(2,719)</b>	<b>(4,551)</b>	<b>(7,235)</b>
Unrealized holding gains (losses) on available-for-sale securities, net of tax	(13)	8	(8,638)	(13,731)
Adjustment for translation differences	380	(2,727)	4,087	6,496
<b>Comprehensive income in accordance with U.S. GAAP</b>	<b>202,514</b>	<b>248,856</b>	<b>212,149</b>	<b>337,220</b>



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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(q) Summary of Income Statement and Equity differences (continued)*

The following is a reconciliation of consolidated equity differences under Chilean GAAP to the corresponding amounts under U.S. GAAP:

	Years ended December 31,		
	2007 MCh\$	2008 MCh\$	2008 ThUS\$
<b>Equity in accordance with Chilean GAAP<sup>(1)</sup></b>	<b>1,144,967</b>	<b>1,297,735</b>	<b>2,062,811</b>
<b>U.S. GAAP adjustments:</b>			
Push Down accounting Banco Edwards (Note 34 (a))			
Goodwill	482,217	482,217	766,507
Derecognition of goodwill as result of US branches sale		(50,803)	(80,754)
Goodwill accumulated amortization (Note 34 (d))	(23,807)	(23,807)	(37,842)
Fair value of intangibles	219,619	219,619	349,095
Amortization of fair value of intangibles	(111,129)	(125,104)	(198,859)
Fair value of premises	14,045	14,045	22,325
Amortization of fair value of premise	(1,972)	(2,256)	(3,585)
Acquisition of Banco Edwards (Note 34 (b))			
Goodwill	239,298	239,298	380,375
Fair value of intangibles	39,892	39,892	63,410
Amortization of fair value of intangibles	(27,771)	(29,998)	(47,683)
Fair value of loans	(2,919)	(2,596)	(4,126)
Fair value of other interest bearing liabilities	(28,532)	(24,212)	(38,486)
Fair value of premises and others	(435)	(354)	(563)
Amortization of fair value of premises	(66)	(78)	(124)
Acquisition of Citibank Chile (Note 34 (c))			
Goodwill		13,717	21,803
Fair value of Loans		14,598	23,204
Amortization of fair value of loans		(3,649)	(5,800)
Fair value of intangibles		59,360	94,356
Amortization of fair value of intangibles		(5,823)	(9,256)
Fair value of premises		(4,243)	(6,745)
Amortization of fair value of premise		1,061	1,687
Investments in other companies (Note 34 (f))	562	976	1,551
Allowance for loan losses (Note 34 (i))	7,003	17,694	28,125
Reversal of additional allowance for loan losses (Note 34 (j))	23,216	38,880	61,802
Derivatives (Note 34 (l))	289	(715)	(1,137)
Investment securities (Note 34 (k))	72	(688)	(1,094)
Assets received in lieu of payment (Note 34 (n))	3,493	2,327	3,699
Minimum Dividend (Note 34 (m))	(79,155)		
Staff severance indemnities (Note 34 (o))	(6,838)	(5,471)	(8,696)
Other	2,374	2,915	4,634
Deferred tax effect of the above U.S. GAAP adjustments (Note 34 (e))	(21,755)	(36,038)	(57,284)

<b>Equity in accordance with U.S. GAAP</b>	<b>1,872,668</b>	<b>2,128,499</b>	<b>3,383,350</b>
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(1) Total equity excluding minority interest

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(Restated for general price - level changes and expressed in millions of constant

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(q) Summary of Income Statement and Equity differences (continued)*

The following summarizes the changes in equity under U.S. GAAP during the years ended December 31, 2007 and 2008:

	Years ended December 31,			
	2006 MCh\$	2007 MCh\$	2008 MCh\$	2008 ThUS\$
Balance as of January 1,	1,707,328	1,726,797	1,872,668	2,976,694
Capital increase as a result of the merger			422,599	671,742
Dividends paid	(179,281)	(188,009)	(285,623)	(454,012)
Mandatory dividends, previous date	64,743	68,507	79,155	125,821
Mandatory dividends, closing date	(68,507)	(79,155)	(190,698)	(303,123)
Unrealized gains on Available-for-sale investments, net of taxes	(13)	8	(8,638)	(13,731)
Subscription and payment of shares		95,672	18,249	29,008
Cumulative translation adjustment	380	(2,727)	4,087	6,496
Net income in accordance with U.S. GAAP	202,147	251,575	216,700	344,455
<b>Balance as of December 31,</b>	<b>1,726,797</b>	<b>1,872,668</b>	<b>2,128,499</b>	<b>3,383,350</b>

*(r) Net income per share*

The following disclosure of net income per share information is not generally required for presentation in the financial statements under Chilean GAAP but is required under U.S. GAAP. Earnings per share is determined by dividing combined net income by the weighted average number of total shares outstanding.

	Years ended December 31,		
	2006 Ch\$	2007 Ch\$	2008 Ch\$
<b>Chilean GAAP(1)</b>			
Earnings per share	3.32	3.69	3.37
Weighted average number of total shares outstanding (in millions)	68,821.32	71,494.60	80,871.88
<b>U.S. GAAP(1)</b>			
Earnings per share on continued operations	3.02	3.53	2.81
Earnings per share on discontinued operations	(0.08)	(0.01)	(0.13)
Earnings per share	2.94	3.52	2.68
Weighted average number of total shares outstanding (in millions)	68,821.32	71,494.60	80,871.88

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

*(s) Article 9 Presentation of Income Statements and Balance Sheets*

The presentation of the consolidated financial statements differs from the format required by the Securities and Exchange Commission under Rules 210.9 to 210.9-07 of Regulation S-X ( Article 9 ). The following financial statements are presented in constant Chilean pesos of December 31, 2008 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, 2006, 2007 and 2008 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. Presentation of Non-interest bearing net of cash clearing account<sup>(1)</sup>
  2. Reclassification of assets under lease from Other assets to Fixed assets
  3. Presentation of deferred taxes on net basis
  4. Reclassification of the amortization of deferred sales forces fees related with loans origination from fees and income from services to interest and fees on loans
  5. Reclassification of other non-operating income and expenses items to other income and expenses as result of being operational income and expenses for US GAAP purposes
  6. Inclusion of adjustments to U.S. GAAP described in Note 34(q)
- (1) In accordance with regulations issued by the Superintendency of Banks, Chilean banks include under the caption "Transactions in the course of collection" amounts related to checks from other banks that have been deposited in their clients' checking accounts that are pending of settlement. As no cash is involved in the transaction, these amounts should not be recorded under U.S. GAAP until the cash is received, which normally occurs the following business day.

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(s) Article 9 Presentation of Income Statements and Balance Sheets (continued)*

The following income statements presented for the years ended December 31, 2006, 2007 and 2008 have been prepared in accordance with U.S. GAAP to disclose the Bank's consolidated income statement related continued operations in accordance with the requirements of Article 9:

<i>Income Statements</i>	Years ended December 31,		
	2006 MCh\$	2007 MCh\$	2008 MCh\$
<b>INTEREST INCOME:</b>			
Interest and fees on loans	806,559	1,150,093	1,574,007
Interest on investments	12,065	17,912	60,804
Interest on deposits with banks	4,646	6,868	3,412
Interest under agreements to resell	2,548	2,373	4,666
Total interest income	<b>825,818</b>	<b>1,177,246</b>	<b>1,642,889</b>
<b>INTEREST EXPENSE:</b>			
Interest on deposits	(293,013)	(459,892)	(602,338)
Interest on investments sold under agreements to purchase	(12,722)	(19,171)	(28,473)
Interest on short-term debt	(14,078)	(15,304)	(28,270)
Interest on long-term debt	(94,524)	(179,807)	(221,703)
Price-level restatement <sup>1</sup>	(9,972)	(41,325)	(77,789)
Total interest expense	<b>(424,309)</b>	<b>(715,499)</b>	<b>(958,573)</b>
Net interest income	<b>401,509</b>	<b>461,747</b>	<b>684,316</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>(61,454)</b>	<b>(52,667)</b>	<b>(127,902)</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>340,055</b>	<b>409,080</b>	<b>556,414</b>
<b>OTHER INCOME:</b>			
Net fees and commissions	176,075	201,561	233,290
Gains (losses) from trading and brokerage activities	79,820	31,142	376,317
Foreign exchange transactions, net	(13,043)	19,357	(353,012)
Other income	31,924	23,730	28,311
Total other income	<b>274,776</b>	<b>275,790</b>	<b>284,906</b>
<b>OTHER EXPENSES:</b>			
Staff expenses	(175,637)	(198,947)	(306,040)
Depreciation and amortization	(32,834)	(35,887)	(50,094)
Administration expenses	(128,507)	(116,553)	(160,666)
Other expenses	(48,008)	(53,478)	(58,499)

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Minority interest		(1)	
Total other expenses	(384,987)	(404,865)	(575,299)
<b>INCOME BEFORE INCOME TAXES</b>	<b>229,844</b>	<b>280,005</b>	<b>266,021</b>
<b>INCOME TAXES</b>	<b>(22,528)</b>	<b>(27,894)</b>	<b>(38,593)</b>
<b>NET INCOME ON CONTINUED OPERATIONS</b>	<b>207,316</b>	<b>252,111</b>	<b>227,428</b>
<b>NET LOSS ON DISCONTINUED OPERATIONS, NET OF TAXES</b>	<b>(5,169)</b>	<b>(536)</b>	<b>(10,728)</b>
<b>NET INCOME FOR THE YEAR</b>	<b>202,147</b>	<b>251,575</b>	<b>216,700</b>

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

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(s) Article 9 Presentation of Income Statements and Balance Sheets (continued)*

The following balance sheets presented as of December 31, 2007 and 2008 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>2007</b>	<b>2008</b>
	<b>MCh\$</b>	<b>MCh\$</b>
<b>ASSETS</b>		
Cash and due from banks	361,022	751,223
Interest bearing deposits in other banks	674,295	530,367
Securities purchased under resale agreement	75,283	75,519
Trading securities	760,010	398,788
Available for sale instruments		1,071,438
<b>Subtotal</b>	<b>1,870,610</b>	<b>2,827,335</b>
Loans	11,640,496	13,842,733
Unearned income	(108,940)	(113,383)
Allowance for loan losses	(139,772)	(209,507)
<b>Loans, net</b>	<b>11,391,784</b>	<b>13,519,843</b>
Fixed assets, net	239,938	256,421
Goodwill	649,279	667,983
Group of assets held for sale	500,272	
Other assets	510,453	1,422,564
<b>TOTAL ASSETS</b>	<b>15,162,336</b>	<b>18,694,146</b>
<b>LIABILITIES AND EQUITY</b>		
<i>Deposits:</i>		
Non-interest bearing	2,296,050	2,776,400
Interest bearing	6,962,100	8,472,590
<b>Total deposits</b>	<b>9,258,150</b>	<b>11,248,990</b>

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Short-term borrowings	311,563	1,546,243
Securities sold under repurchase agreement	386,793	420,658
Group of liabilities held for sale	419,351	
Other liabilities	434,158	1,378,934
Long-term debt	2,479,652	1,970,814
<b>TOTAL LIABILITIES</b>	<b>13,289,667</b>	<b>16,565,639</b>
Minority interest	1	8
Capital		
Common stock	785,358	1,106,491
Other Equity	1,087,310	1,022,008
<b>TOTAL EQUITY</b>	<b>1,872,668</b>	<b>2,128,499</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>15,162,336</b>	<b>18,694,146</b>

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(s) Article 9 Presentation of Income Statements and Balance Sheets (continued)*

The following is a reconciliation of total assets presented in accordance with guidelines established by the Superintendency of Banks and the presentation prescribed by Article 9:

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
Total assets of the Bank under Chilean GAAP	14,551,772	18,128,442
Elimination of assets offset by liabilities:		
Cash clearing account	(193,063)	(230,861)
Reclassification of deferred taxes	(15,927)	(25,465)
U.S. GAAP adjustments, net	819,554	822,030
<b>Total assets as per Article 9 presentation</b>	<b>15,162,336</b>	<b>18,694,146</b>

*(t) Consolidated Statements of Cash Flows*

As a result of the merger transaction, the Bank acquired assets and assumed liabilities, which are shown as non-cash investing transaction as follows:

	As of
	December 31,
	2008
	MCh\$
Cash acquired	311,000
Financial investments and loans	1,563,407
Bank premises and equipment	27,142
Goodwill and intangibles	73,077
Other assets	416,195
Liabilities	(1,968,222)
<b>Subtotal</b>	<b>422,599</b>
Capital increase (Note 34 (q))	(422,599)

**Total**

For Chile GAAP purposes, cash and cash equivalent includes highly liquid instruments with insignificant risk of changing value, maturing in no more than three months from the date of acquisition and transactions in the course of settlement. For purposes US GAAP, these highly liquid instruments and transactions in the course of settlement are not considered as cash equivalent. Accordingly, cash and cash equivalent for US GAAP purposes is as follows:

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(t) Consolidated Statements of Cash Flows (continued)*

	As of December 31,		
	2006	2007	2008
	MCh\$	MCh\$	MCh\$
Cash flow from operating activities under Chilean GAAP	386,533	417,124	256,043
<u>Differences between Chilean GAAP and US GAAP:</u>			
Net transactions in the course of settlement	(188,148)	(71,771)	241,063
Cash flow from operating activities under US GAAP	198,386	345,353	497,106
Cash flow investing activities Chilean GAAP	(1,614,292)	(2,184,418)	(1,753,342)
<u>Differences between Chilean GAAP and US GAAP:</u>			
Highly liquid financial instruments	(343,735)	306,601	(232,147)
Net cash acquired from Citibank			311,000
Cash flow from investing activities under US GAAP	(1,958,027)	(1,877,817)	(1,674,489)
Financing cash flow activities Chilean GAAP and US GAAP	1,788,415	1,214,799	1,674,901
Cash flows from discontinued operations			
Operating activities	4,189	(2,959)	
Investing activities	(81,533)	(10,138)	
Financing activities	103,660	13,120	
Less total cash flows from discontinued operations	26,316	23	
Net cash flow	55,090	(317,642)	497,518
Effect of price-level restatement and exchange rate difference	(23,801)	(68,387)	(89,907)
Total change of cash and cash equivalent	31,389	(386,029)	407,611
Cash equivalent at the beginning of the period	859,005	843,156	436,305
Cash equivalent at the beginning of the period Discontinued operations	(47,138)	(20,822)	(17,174)
<b>Total Cash and Cash equivalent</b>	<b>843,156</b>	<b>436,305</b>	<b>826,742</b>

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	<b>2006</b>	<b>As of December 31,</b>	
	<b>MCh\$</b>	<b>2007</b>	<b>2008</b>
		<b>MCh\$</b>	<b>MCh\$</b>
Cash and due from banks			
Cash	198,645	227,645	223,103
Chilean Central Bank deposits	508,574	39,899	168,255
Deposits in other Domestic banks	33,941	58,079	80,624
Deposits abroad	49,029	35,399	279,241
<b>Subtotal Cash and due from banks</b>	<b>790,189</b>	<b>361,022</b>	<b>751,223</b>
Repurchase agreements	52,967	75,283	75,519
<b>Total Cash and Cash equivalent</b>	<b>843,156</b>	<b>436,305</b>	<b>826,742</b>

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(u) 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,		
	2006	2007	2008
	MCh\$	MCh\$	MCh\$
Tax expense for the year under Chilean GAAP	(28,105)	(30,388)	(37,810)
U.S. GAAP Adjustments:			
Deferred tax effect of U.S. GAAP adjustments	5,577	2,494	(783)
<b>Tax expense for the year under U.S. GAAP</b>	<b>(22,528)</b>	<b>(27,894)</b>	<b>(38,593)</b>

Deferred tax assets (liabilities) are summarized as follows:

	Years ended December 31,	
	2007	2008
	MCh\$	MCh\$
<b>Deferred Tax Assets:</b>		
Allowance for loan losses	19,142	27,884
Obligations with repurchase agreements	5,005	9,194
Leasing equipment	3,149	3,311
Deferred income taxes related to purchase accounting of Banco de		
A. Edwards	3,374	2,949
Personnel provisions	2,382	3,544
Staff vacations	2,446	3,057
Staff severance indemnities	2,353	1,825
Accrued interests and readjustments from risky loan portfolio	1,716	2,383
Assets at market value	85	(813)
Other adjustments	8,130	11,276
<b>Total Deferred Tax Assets</b>	<b>47,782</b>	<b>64,610</b>

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<b>Deferred Tax Liabilities:</b>		
Deferred income taxes related to push down accounting adjustments	20,496	28,493
Investments sold under repurchase agreements	4,922	7,843
Depreciation and price-level restatement of fixed assets	4,637	10,004
Transitory assets	3,851	4,749
Other adjustments	2,516	6,287
<b>Subtotal Deferred Tax Liabilities</b>	<b>36,422</b>	<b>57,376</b>
<b>Deferred taxes with an effect on equity</b>		
Valuation adjustment on available-for-sale investments		(1,768)
<b>Total deferred tax on equity</b>		<b>(1,768)</b>
<b>NET DEFERRED TAX ASSETS</b>	<b>11,360</b>	<b>9,002</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, 2008)

**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(u) 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,		
	2006	2007	2008
	MCh\$	MCh\$	MCh\$
Chilean taxes due at the applicable statutory rate (1)	39,073	47,601	45,224
Increase (decrease) in rates resulting from:			
Non-deductible expenses	5,538	6,466	23,824
Non-taxable income	(21,257)	(23,691)	(23,199)
Effect on tax and financial equity restatement (2)	(788)	(2,729)	(2,607)
Other	(38)	247	(4,649)
<b>At effective tax rate</b>	<b>22,528</b>	<b>27,894</b>	<b>38,593</b>

(1) The Chilean statutory first category (corporate) income tax rate is 17% for 2006, 2007 and 2008.

(2) This item corresponds to the difference in the basis used for the price-level restatement calculation of equity for financial and tax purposes. Effective January 1, 2007, the Bank and its subsidiaries adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. The Interpretation prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken within an income tax return. For each tax position, the enterprise must determine whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is then measured to determine the amount of benefit to recognize within the financial statements. No benefits may be recognized for tax positions that do not meet the more likely than not threshold. The benefit to be recognized is the largest amount that is more likely than not to be realized upon ultimate settlement.

The Bank did not record any effect as result of the adoption of the provisions of FIN 48 on the current period nor to retained earnings due to its tax positions did not meet the recognition threshold.

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(v) Comprehensive Income*

The Bank presents comprehensive income and its components with the objective to report a measure of all changes in equity that result from transactions and other economic events of the period other than transactions with owners ( comprehensive income ). Comprehensive income is the total net income and other non-owner equity transactions that result in changes in net equity.

The following represents accumulated other comprehensive income balance, net of tax, for the years ended December 31, 2006, 2007 and 2008:

	Year ended December 31, 2008		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
	MCh\$	MCh\$	MCh\$
Beginning balance	(6,091)	(1,162)	(7,253)
Price-level restatement (1)	714	(121)	593
Unrealized gains on investments available for sale:			
Capital increase as a result of the merge.	(2,819)	479	(2,340)
Unrealized gains arising during the period	(17,292)	2,940	(14,352)
Less: reclassification adjustment for gains included in income	9,705	(1,651)	8,054
Net unrealized gains	(10,406)	1,768	(8,638)
Adjustment for translation differences	4,087		4,087
<b>Ending balance</b>	<b>(11,696)</b>	<b>485</b>	<b>(11,211)</b>

	Year ended December 31, 2007		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
	MCh\$	MCh\$	MCh\$
Beginning balance	(3,777)	(1,092)	(4,869)
Price-level restatement (1)	404	(69)	335
Unrealized losses on investments available for sale:			
Unrealized losses arising during the period			
Less: reclassification adjustment for losses included in net income	9	(1)	8
Net unrealized losses	9	(1)	8
Adjustment for translation differences	(2,727)		(2,727)
<b>Ending balance</b>	<b>(6,091)</b>	<b>(1,162)</b>	<b>(7,253)</b>

Year ended December 31, 2006

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	Before-tax amount MCh\$	Tax (expense) or benefit MCh\$	Net-of-tax amount MCh\$
Beginning balance	(4,274)	(1,072)	(5,346)
Price-level restatement (1)	132	(22)	110
Unrealized losses on investments available for sale:			
Unrealized losses arising during the period	(15)	2	(13)
Less: reclassification adjustment for losses included in net income			
Net unrealized losses	(15)	2	(13)
Adjustment for translation differences	380		380
<b>Ending balance</b>	<b>(3,777)</b>	<b>(1,092)</b>	<b>(4,869)</b>

- (1) Reflects the effect of inflation on the comprehensive income at the beginning of each period, adjusted to constant pesos of December 31, 2008.

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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, 2008)**

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

*(w) 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 four major segments of business (five for period prior to 2008) 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:

*Wholesale Market,*

The Wholesale market business segment serves the needs of corporate customers with annual sales in excess of Ch\$1,400 million that are engaged in a wide spectrum of industry sectors. Services provided include depositing and lending in both Chilean pesos and foreign currency, trade and project financing, working capital financing, leasing, factoring, foreign trade financing, lines of credit, commercial mortgage loans and various non-credit services, such as financial consultancy, collections, supplier payments, payroll management and a wide array of treasury and risk management products, as well as electronic banking services. The Wholesale market business segment also includes international services, such as import and export financing, letters of credit, guarantees and other forms of credit support.

*Retail Market,*

The Retail market business segment serves the financial needs of individuals and middle-market companies (with annual sales of up to Ch\$1,400 million) through the Bank's branches network. The principal financial services offered include credit cards, debit cards, residential mortgage loans, consumer loans, commercial loans, leasing loans, as well as deposit services such as checking and savings accounts and time deposits.

*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 exchange and currency swaps, 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.

*International Banking,*

For periods prior to 2008, the International Banking segment included services offered through the Bank's New York and Miami branches and its representative offices. As a consequence of the merger by absorption of Citibank Chile into Banco the Chile effective January 1<sup>st</sup>, 2008, US branches were sold to Citigroup.

**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, 2008)****34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(w) Segment information (continued)**Subsidiaries,*

The Subsidiaries segment includes non-banking financial services that are offered through separate legal entities. These include securities brokerage, mutual fund and investment fund management, financial advisory services, factoring, insurance brokerage, securitization, trade, collection and sales services.

The financial information used to measure the performance of the Bank's business segments is not necessarily comparable with similar information from other financial institutions because it is based on internal reporting policies. The accounting policies are the same as those applied under Chilean GAAP as described in Note 1, except as noted below:

The net interest margin of loans and deposits is measured on an individual transaction and individual client basis, stemming from the difference between the effective customer rate and the related Bank's fund transfer price in terms of maturity, re-pricing and currency.

The results associated with the gap management (interest rate mismatches) have been fully allocated in the treasury segment.

The performance of the business segments, measured by an internal profitability system considers results that are directly related to performance and not to overhead expenses of corporate and support departments, additional allowances, merger costs, taxes and other operating income and expenses.

The internal performance profitability system considers capital allocation in each segment in accordance to Basel guidelines.

Provisions for loan losses in each segment are measured on a client basis.

In addition to direct costs (consisting mainly of labor and administrative expenses), the Bank allocates the majority of its indirect operating costs to each business area, whenever there is a clearly defined business driver that links such costs to the business area. The following tables show the results of the Bank by operating segments for the three years ended December 31, 2008:

Year ended December 31, 2008 (1)						
Wholesale Market MCh\$	Retail Market MCh\$	Treasury MCh\$	International Banking MCh\$	Subsidiaries MCh\$	Other (2) MCh\$	Total MCh\$

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Operating Revenues	293,016	547,182	136,461	119,920	901	1,097,480
Provisions	(28,636)	(108,603)		(2,185)	831	(138,593)
Operating Expenses	(66,312)	(241,559)	(6,516)	(77,224)	(182,237)	(573,848)
Other income and expenses	(69,295)	(39,126)	(21,281)	(14,176)	31,266	(112,612)
<b>Net income</b>	<b>128,773</b>	<b>157,894</b>	<b>108,664</b>	<b>26,335</b>	<b>(149,239)</b>	<b>272,427</b>

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(w) Segment information (continued)*

	Year ended December 31, 2007 (1)						
	Wholesale Market MCh\$	Retail Market MCh\$	Treasury MCh\$	International Banking MCh\$	Subsidiaries MCh\$	Other (2) MCh\$	Total MCh\$
Operating Revenues	186,222	403,951	87,801	11,863	104,809	(9,966)	784,680
Provisions	2,369	(60,112)		553	(289)	801	(56,678)
Operating Expenses	(66,058)	(193,353)	(3,697)	(15,308)	(62,608)	(50,256)	(391,280)
Other income and expenses	(37,119)	(24,917)	(10,265)	522	(10,772)	9,681	(72,870)
<b>Net income</b>	<b>85,414</b>	<b>125,569</b>	<b>73,839</b>	<b>(2,370)</b>	<b>31,140</b>	<b>(49,740)</b>	<b>263,852</b>

	Year ended December 31, 2006 (1)						
	Wholesale Market MCh\$	Retail Market MCh\$	Treasury MCh\$	International Banking MCh\$	Subsidiaries MCh\$	Other (2) MCh\$	Total MCh\$
Operating Revenues	161,787	367,223	50,533	18,075	84,329	16,114	698,061
Provisions	6,777	(49,496)		(105)	(1,499)	1,350	(42,973)
Operating Expenses	(70,529)	(190,922)	(4,150)	(25,523)	(48,593)	(50,063)	(389,780)
Other income and expenses	(16,818)	(15,945)	(5,485)	738	(5,244)	5,806	(36,948)
<b>Net income</b>	<b>81,217</b>	<b>110,860</b>	<b>40,898</b>	<b>(6,815)</b>	<b>28,993</b>	<b>(26,793)</b>	<b>228,360</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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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(w) Segment information (continued)*

Information about geographic areas

The financial information presented below has been classified considering the country in which the related transactions were originated. Those transactions originated in the United States of America, through Banco de Chile's operations in New York and Miami, U.S.A., are primarily completed with Chilean and Argentine citizens and enterprises, and are principally denominated in U.S. dollars.

A summary of activities by geographic area is as follows:

	As of December 31,		
	2006	2007	2008
	MCh\$	MCh\$	MCh\$
<b>Total Interest Revenues</b>			
Republic of Chile	835,667	1,191,870	1,663,643
U.S.A.	9,974	12,360	
Hong Kong			
<b>Total Net Income</b>			
Republic of Chile	233,302	264,238	236,721
U.S.A.	(5,170)	(536)	35,593
Hong Kong	228	150	113
<b>Residential Mortgage Loans</b>			
Republic of Chile	1,819,242	2,145,474	2,308,013
U.S.A.			
Hong Kong			
<b>Commercial Loans</b>			
Republic of Chile	6,866,387	7,853,958	9,453,444
U.S.A.	109,781	53,915	
Hong Kong			
<b>Income Taxes</b>			
Republic of Chile	(28,058)	(30,352)	(37,796)
U.S.A.	(77)	1,072	
Hong Kong	(47)	(36)	(14)
<b>Fixed assets</b>			
Republic of Chile	174,362	183,400	205,369
U.S.A.	2,692	501	
Hong Kong			
<b>Total Assets</b>			
Republic of Chile	13,245,360	14,101,894	18,127,718
U.S.A.	546,788	449,826	
Hong Kong	21	52	724



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

*(x) Estimated Fair Value of 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 or available for sale and therefore are generally carried at quoted market prices. Interest earning assets and liabilities with an original maturity of less than one year are considered to have a fair value, which is not materially different from their book value.

For interest earning assets and interest bearing liabilities which are contracted at variable interest rates, their book value is considered to be equivalent to their fair value.

For performing loans with fixed-rates and an original maturity of greater than one year, the fair values were calculated by discounting contractual cash flows, using the Bank's current origination rates for loans with similar terms and similar risk characteristics.

For loans where the Bank's management believes that the amounts outstanding will not be paid in accordance with contractual terms, the estimated cash flows arising from the liquidation of collateralized assets and other expected flows have been discounted at an estimated discount rate commensurate with the risk in the collection of these amounts.

For interest-bearing liabilities with fixed rates and an original contractual maturity of greater than one year, the fair values are calculated by discounting contractual cash flows at current market origination rates with similar terms.

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The estimated fair value of foreign exchange forward contracts was determined using quoted market prices of financial instruments with similar characteristics.

The fair value of interest rate swaps represents the estimated amount the Bank would expect to receive or pay to terminate the contracts or agreements, taking into account current interest rates. As no quoted market prices are available for the interest rate swap and forward rate instruments held by the Bank, such estimates have been estimated using modeling and other valuation techniques.

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(x) Estimated Fair Value of Financial Instrument (continued)*

The estimated fair values of financial instruments and derivatives financial instruments are as follows:

	As of December 31,			
	2007		2008	
	Carrying Amount MCh\$	Estimated fair value MCh\$	Carrying Amount MCh\$	Estimated fair value MCh\$
<b>ASSETS</b>				
Cash and due from banks	361,022	361,022	751,223	751,223
Interest bearing deposits in other banks	674,295	674,295	530,367	530,367
Accounts receivable under spot foreign exchange transactions (1)	89,877	89,877	226,997	226,997
Financial investments	835,293	835,293	1,545,745	1,545,745
Loans, net	11,391,784	12,146,816	13,519,843	12,827,247
Derivative instruments (1)	88,620	88,620	904,011	904,011
<b>LIABILITIES</b>				
Deposits	9,258,150	8,895,122	11,248,990	11,054,703
Accounts payable under spot foreign exchange transactions (1)	75,669	75,669	15,428	15,428
Investments sold under agreements to repurchase	386,793	386,793	420,658	420,658
Short term and long term borrowings	2,791,215	3,169,048	3,517,057	3,361,329
Derivative instruments (1)	130,856	130,856	862,799	862,799

(1) Included under the captions other assets and other liabilities.

Effective January 1, 2008, the Bank adopted SFAS No. 157, *Fair Value Measurements*. This Standards address the application of fair value accounting and reporting.*Fair Value Measurements*

SFAS 157 defines fair value, establishes a consistent framework for measuring fair value, and enhances disclosures about fair value measurements. In February 2008, the FASB amended SFAS 157 with the issuance of FSP FAS 157-1, which excludes with certain exceptions SFAS No. 13, *Accounting for Leases*, from the scope of SFAS 157, and FSP FAS 157-2, which delayed the adoption of SFAS 157 for one year for the measurement of nonfinancial assets and nonfinancial liabilities. There was no material effect from the adoption of SFAS 157 on the Bank consolidated financial statements.

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

*(x) Estimated Fair Value of Financial Instruments (continued)*

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, SFAS 157 has established a hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities; this category only includes certain derivatives (e.g. currency futures).

Level 2 Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data. This category generally includes certain Chilean Central Bank and corporate debt securities; certain securities sold, not yet purchased; and certain derivatives.

Level 3 Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

The Bank use fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure for accounting. This is done primarily for available for sales and trading investment securities; securities sold, not yet purchased; and derivatives. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as other real estate owned. Fair value is also used when evaluating impairment on certain assets, goodwill, and core deposit and other intangibles, long-lived assets, and for annual disclosures required by SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*.

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(x) Estimated Fair Value of Financial Instruments (continued)*

Assets and liabilities measured at fair value on a recurring basis, are summarized as follows:

	As of December 31, 2008			
	Level 1 MCh\$	Level 2 MCh\$	Level 3 MCh\$	Total MCh\$
<b>Assets</b>				
Trading securities		679,843		679,843
Available for sale instruments		780,557	290,881	1,071,438
Derivate instruments	173	903,838		904,011
<b>Total assets</b>	<b>173</b>	<b>2,364,238</b>	<b>290,881</b>	<b>2,655,292</b>
<b>Liabilities</b>				
Derivate instruments	2,217	860,582		862,799
Subordinated bond		125,886		125,886
<b>Total liabilities</b>	<b>2,217</b>	<b>986,468</b>		<b>988,685</b>

The following table reconciles the beginning and ending balances of assets for 2008 that are measured at fair value on a recurring basis using Level 3 inputs.

	As of December 31, 2008		
	Trading Securities MCh\$	Available for sale Instruments MCh\$	Total MCh\$
Beginning balance	191,804		191,804
Total gains or losses in income	1,072	(607)	465
Foreign exchange (gains/losss)	5,543	8,648	14,191
Purchases	59,895	151,756	211,651
Sales and settlements	(112,470)	(15,768)	(128,238)
Transfer out of trading securities	(145,844)	145,844	
Transfer difference due capitalization		1,008	1,008
<b>Ending balance</b>		<b>290,881</b>	<b>290,881</b>

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(Restated for general price - level changes and expressed in millions of constant

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**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(y) Fixed assets, net*

The major categories of fixed assets net of accumulated depreciation are as follows:

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
Land and buildings	124,062	137,890
Machinery and equipment	64,315	66,970
Assets under lease	44,424	42,414
Furniture and fixtures	2,986	4,408
Vehicles	1,145	1,157
Other assets	3,006	3,582
<b>Total fixed assets, net</b>	<b>239,938</b>	<b>256,421</b>

In accordance with rules of the Superintendency of Banks, bank premises and equipment are presented net of accumulated depreciation. The accumulated depreciation at the end of December 31, 2007 and 2008 corresponds to MCh\$138,852 and MCh\$165,808, respectively. The expense recorded at the end of 2006, 2007 and 2008 was Ch\$18,062, Ch\$18,432 and Ch\$23,480 in the same order.

*(z) Other assets and other liabilities**(1) Other assets*

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
Derivative instruments	88,620	904,011
Amounts receivable under spot foreign exchange transaction	89,877	226,997
Intangibles	120,611	157,946
Pending transactions	11,929	25,359
Investments in other companies	8,576	12,353
Payments from counterparties to be settled	48,041	11,722
Deferred income tax assets, net	11,360	9,002
Other account and notes receivable	63,122	10,411
Intangibles (software and licenses for trademark use)	26,415	30,317
VAT receivable	7,448	6,785
Commissions receivable	1,428	6,724
Assets received in lieu of payment	9,304	6,413
Prepaid expenses	2,483	2,438
Materials and supplies	694	975

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Additional consideration paid in the purchase of mortgage bonds	1,134	888
Accounts receivable for assets received in lieu of payment sold	3,277	584
Assets to be securitized	6,895	
Other	9,239	9,639
<b>Total other assets</b>	<b>510,453</b>	<b>1,422,564</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, 2008)

**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(z) Other assets and other liabilities (continued)**(2) Other liabilities*

	As of December 31,	
	2007	2008
	MCh\$	MCh\$
Derivative instruments, net	130,856	862,799
Provision for minimum dividend	79,155	190,698
Payments from counterparties to be settled	29,961	126,560
Accounts and notes payable	51,750	82,814
Provision for personnel benefits and payroll	42,864	49,292
Allowance for contingent loans risk	4,890	17,592
Amounts payable under spot foreign exchange transaction	45,840	15,428
Current tax liability	6,282	9,053
VAT payable	7,206	7,829
Leasing deferred gains	8,039	7,568
Pending transactions	13,554	3,407
Deferred income	3,386	2,359
Legal contingencies provision	1,110	
Co-branding allowance	7,326	
Other	1,939	3,535
<b>Total other liabilities</b>	<b>434,158</b>	<b>1,378,934</b>

*(3) Contingent Loans*

Contingent loans 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 contingent loan represents the Bank's obligations under such agreements. The Bank's rights under these agreements are recognized as off balance account.

	As of December 31, 2007		As of December 31, 2008	
	Book value	Contract amount	Book value	Contract amount
	MCh\$	MCh\$	MCh\$	MCh\$
Performance bonds	4,586	978,272	4,530	1,115,773
Foreign office guarantees and Standby letters of credits	304	165,248	535	212,914
<b>Total</b>	<b>4,890</b>	<b>1,143,520</b>	<b>5,065</b>	<b>1,328,687</b>

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Guarantees in the form of performance bonds, stand by letters of credit and foreign office guarantees are issued in connection with agreements made by customers to counterparties. If the customer fails to comply with the agreement, the counterparty may enforce the performance bond as a remedy. Credit risk arises from the possibility that the customer may not be able to repay the Bank for performance bonds. To mitigate credit risk, the Bank generally determines the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness.

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**Table of Contents****BANCO DE CHILE AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Restated for general price - level changes and expressed in millions of constant

Chilean pesos as of December 31, 2008)

**34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(z) Other assets and other liabilities (continued)*

The expiration of guarantees, per period is as follows:

	Due within 1 year MCh\$	Due after 1 year but within 3 year MCh\$	Due after 3 years but within 5 years MCh\$	Due after 5 years MCh\$	Total MCh\$
Performance bonds	645,159	437,839	30,326	2,449	1,115,773
Foreign office guarantees and Standby letters of credits	110,110	102,607		197	212,914
<b>Total</b>	<b>755,269</b>	<b>540,446</b>	<b>30,326</b>	<b>2,646</b>	<b>1,328,687</b>

*(aa) Other Interest Bearing Liabilities*

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. For U.S. GAAP purposes, the total Other Interest Bearing Liabilities is higher for Debt issued in MCh\$28,532 and MCh\$24,212 as of December 2007 and 2008, respectively due to U.S GAAP adjustment from Acquisition of Banco Edwards (Note 34 (b)).

*(ab) Equity*

The Bank's paid-in capital consists of 71,996,083,216 authorized shares with no fixed nominal value, issued and outstanding as of December 31, 2008. Dividends related to the year ended December 31, 2006 were paid-out based on the legal entities in existence as of the year end.

Dividends are declared and paid during the year subsequent to that in which the related net income was earned.

Dividends were declared and paid to shareholders based on prior year net income determined under Chilean GAAP for the years ended December 31, 2006, 2007 and 2008 (presented in constant Chilean pesos as of December 31, 2008) are as follows:

	Paid during the year ended December 31,		
	2006 MCh\$	2007 MCh\$	2008 MCh\$
Dividends	179,281	188,009	285,620
Dividends per share	2.64	2.73	3.63



**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, 2008)****34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(ac) Pro Forma information related to the merger of Banco de Chile and Citibank Chile*

The financial information under U.S. GAAP, as presented above, reflects the financial information the merger banks starting as of January 1, 2008. The following pro forma financial information gives effect to the merger of the banks as if it had occurred on January 1, 2007. These pro forma results from operations have been prepared only for information purposes and do not purport to be indicative of the actual results of operations.

The pro forma results and earning per share information, are as follows:

	<b>2007</b>
	<b>MCh\$</b>
Interest revenue	647,286
Net income	275,727
Earnings per Share (\$)	3.41

*(ad) Recent accounting pronouncements*

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements* ( SFAS No. 160 ). SFAS No. 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 defines a noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. It shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially adopted, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. Management is evaluating the impact, if any, of the adoption of SFAS No. 160.

In December 2007, the FASB issued FASB Statement No. 141(R), *Business Combinations* ( SFAS141(R) ). SFAS141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. SFAS141(R) applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including combinations achieved without the transfer of consideration. In April 2009, the FASB issued FASB Staff Position FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies*. The FSP amends SFAS 141(R) to require that pre-acquisition contingencies be recognized at fair value if the fair value can be determined during the measurement period. Management is evaluating the potential impact of adopting SFAS141(R) on the Bank's financial statements, if any.

**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, 2008)****34. Differences between Chilean and United States Generally Accepted Accounting Principles (continued)***(ad) Recent accounting pronouncements (continued)*

In February 2008, the FASB issued FASB Staff Position No. FAS 140-3 Accounting for Transfers of Financial Assets and Repurchase Financing Transactions . It addresses whether there are circumstances that would permit a transferor and a transferee to evaluate the accounting for the transfer of a financial asset separately from a repurchase financing when the counterparties to the two transactions are the same. Transactions subject to this FSP involve the lender transferring a financial asset to the borrower and contemporaneously taking that asset back as security for the repurchase financing. The FSP presumes that the initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (a linked transaction) under SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ( SFAS 140 ). If the combined arrangement does not qualify for sale accounting, it generally will be accounted for as a forward sale of the financial asset, which may be subject to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. However, if certain criteria specified in the FSP are met, the initial transfer and repurchase financing may be evaluated separately under SFAS 140. The FSP is effective for fiscal years beginning after November 15, 2008. At the issued date of financial statements, Banco de Chile and subsidiaries have not had any such transaction.

In March 2008, the FASB issued FASB statement No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB statement No. 133 ( SFAS161 ). SFAS161 applies to all derivative instruments and non derivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS133 and related hedged items accounted for under SFAS133. SFAS161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. SFAS161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Comparative disclosures for earlier periods at initial adoption are encouraged but not required. Management does not expect the adoption of SFAS161 to have a material impact on the Bank s financial statements.

In May 2008, the FASB issued FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles ( SFAS162 ). SFAS162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. SFAS162 is effective 60 days following the United States Securities and Exchange Commission (SEC s) approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles . Management does not expect the adoption of SFAS162 to have a material impact on the bank s financial statements.

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**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Restated for general price - level changes and expressed in millions of constant**

**Chilean pesos as of December 31, 2008)**

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

*(ad) Recent accounting pronouncements (continued)*

In April 2009, the FASB released FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP changes existing accounting requirements for other-than-temporary-impairment (OTTI) by:

Replacing the current recognition requirement

Requiring the OTTI to be separated into the amount representing the decrease in cash flows expected to be collected and the amount related to all other factors

Lowering the probability threshold for recognizing an OTTI from probable to more likely than not

Requiring the total OTTI to be presented in the statement of earnings with an offset in a separate line item for any amount of the total OTTI that is recognized in OCI

For securities classified as held-to-maturity, requiring the amount of the OTTI recognized in OCI to be amortized over the remaining life of the security

Extending disclosure requirements

FSP FAS 115-2 is effective for interim and annual periods ending after June 15, 2009. Management is evaluating the potential impact of this pronouncement on the Bank's financial statements, if any.

In April 2009, the FASB issued FASB Staff Position No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP amends SFAS 157 to provide additional guidance on estimating fair value when the volume and level of transaction activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. The FSP also provides additional guidance on circumstances that may indicate that a transaction is not orderly. It also requires additional disclosures about fair value measurements in annual and interim reporting periods. The FSP is focused on assets and liabilities that have experienced a significant reduction in volume and activity in relation to normal market activity. The FASB believes there may be increased instances of transactions that are not orderly in these situations. In addition, uncertainty regarding when to make adjustments to observable data and when alternative valuation techniques should be used are more prevalent when the level of activity for an asset or liability has significantly decreased. Assets that historically traded in active markets (or in markets less inactive than they are today), were typically valued using a market approach given the availability and relevance of observable data. FSP FAS 157-4 provides additional guidance on when the use of multiple (or different) valuation techniques may be warranted and considerations for determining the weight that should be applied to the various techniques. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The impact of this FSP to a large degree depends on the market conditions prevailing at the next balance sheet date since this FSP only relates to fair value measurements in markets displaying significantly reduced transaction activity.



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In June 2009, the FASB has published Financial Accounting Statements No. 166, Accounting for Transfers of Financial Assets, and No. 167, Amendments to FASB Interpretation No. 46(R), which change the way entities account for securitizations and special-purpose entities. Statement 166 is a revision to Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets and requires additional disclosures. Statement 167 is a revision to FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based upon an entity's purpose and design, and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. FAS 166 and FAS 167 are effective for the fiscal years beginning after November 15, 2009. Management is evaluating the potential impact of adopting FAS 166 and FAS 167 on the Bank's financial statement, if any.

**35. Subsequent Events**

According to changes in accounting criteria informed under Note 2, during the first quarter of 2009, the Bank informed to the local Superintendency about the impact of the new accounting criteria application as of December 31, 2008. These adjustments will be made retroactive to December 31, 2008 and the Bank calculated to be an increase in equity of MCh\$23,131, increase in assets of MCh\$32,273 and increase on liabilities of MCh\$9,142.

	<b>As of December, 31, 2008</b>		
	<b>(UNAUDITED)</b>		
	<b>Initial Balance</b>	<b>Adjustments</b>	<b>Adjusted Balance</b>
	<b>MCh\$</b>	<b>MCh\$</b>	<b>MCh\$</b>
Total assets	18,128,442	32,273	18,160,715
Total liabilities	16,830,699	9,142	16,839,841
Total equity	1,297,735	23,131	1,320,866
Total minority interest	8		8