As filed with the Securities and Exchange Commission on June 26, 2006

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, 2005
Commission file number 001-15266

BANCO DE CHILE

(Exact name of Registrant as specified in its charter)

BANK OF CHILE
(Translation of Registrant's name into English)
REPUBLIC OF CHILE
(Jurisdiction of incorporation or organization)

Banco de Chile
Ahumada 251
Santiago, Chile
(562) 637-1111
(Address of principal executive offices)

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

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

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:
Shares of common stock: 68,079,783,605

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

☐ Item 17 ☒ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

TABLE OF CONTENTS

THE MERGER

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

PRESENTATION OF FINANCIAL INFORMATION

We prepare our audited consolidated financial statements in Chilean pesos and in accordance with generally accepted accounting principles in Chile, or Chilean GAAP, and the rules of the *Superintendencia de Bancos e Instituciones Financieras*, or the Chilean Superintendency of Banks. Together, these requirements differ in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. References to "Chilean GAAP" in this annual report are to Chilean GAAP, as supplemented by the applicable rules of the Chilean Superintendency of Banks. See Note 28 to our audited consolidated financial statements contained elsewhere in this annual report for a description of the material differences between Chilean GAAP and U.S. GAAP, as they relate to us and our consolidated subsidiaries, and a reconciliation to U.S. GAAP of net income and shareholders' equity.

Pursuant to Chilean GAAP, unless otherwise indicated, financial data for all full-year periods through December 31, 2005 included in our audited consolidated financial statements and in the other financial information contained elsewhere in this annual report have been restated in constant Chilean pesos of December 31, 2005.

In this annual report, references to "$," "U.S.$," "U.S. dollars" and "dollars" are to United States dollars, references to "pesos" or "Ch$" are to Chilean pesos, and references to "UF" are to "*Unidades de Fomento.*" The UF is an inflation-indexed Chilean monetary unit of account with a value in Chilean pesos that is linked to and adjusted daily to reflect changes in the Consumer Price Index of the *Instituto Nacional de Estadísticas*, or the Chilean National Institute of Statistics. As of December 31, 2005, one UF equaled U.S.$34.96 and Ch$17,974.81. 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, 2005 (the latest practicable date, as December 31, 2005 was a banking holiday in Chile). The observed exchange rate on June 22, 2006 was Ch$545.64 = U.S.$1.00. The rate reported by the Central Bank is based on the rate for the prior business day in Chile and is the exchange rate specified by the Chilean Superintendency of Banks for use by Chilean banks in the preparation of their financial statements. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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

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

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

MACRO-ECONOMIC AND MARKET DATA

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

SELECTED FINANCIAL DATA

The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements appearing elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with Chilean GAAP and the rules of the Chilean Superintendency of Banks, which together differ in certain significant respects from U.S. GAAP. Note 28 to our audited consolidated financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended December 31, 2003, 2004 and 2005 and shareholders' equity at December 31, 2004 and 2005.

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

	At or for the year ended December 31,					
	2001	2002	2003	2004	2005	2005
	(in millions of constant Ch$ as of December 31, 2005, except share data)					(in thousands of U.S.$)
CONSOLIDATED INCOME STATEMENT DATA						
Chilean GAAP:						
Interest revenue	Ch$ 569,529	Ch$ 739,723	Ch$ 455,241	Ch$ 562,933	Ch$ 680,149	U.S. $1,322,707
Interest expense	(332,176)	(345,477)	(216,876)	(222,636)	(310,351)	(603,549)
Net interest revenue	237,353	394,246	238,365	340,297	369,798	719,158
Provisions for loan losses	(40,035)	(95,165)	(36,867)	(41,208)	(22,028)	(42,838)
Total fees and income from services, net	44,556	81,568	101,787	131,408	137,793	267,970
Total other operating income (loss), net	9,214	(32,760)	102,357	15,031	10,860	21,120
Total other income and expenses, net	2,939	(15,673)	(11,533)	(11,037)	(6,394)	(12,434)
Total operating expenses	(153,066)	(266,709)	(236,426)	(249,623)	(276,464)	(537,649)
Loss from price-level restatement	(6,382)	(10,292)	(4,286)	(7,735)	(11,450)	(22,267)
Income before income taxes	94,579	55,215	153,397	177,133	202,115	393,060
Income taxes	1,494	1,237	(14,763)	(19,010)	(21,391)	(41,600)
Net income	96,073	56,452	138,634	158,123	180,724	351,460
Earnings per share[(1)]	2.14	0.83	2.04	2.36	2.69	0.0C
Dividends per share[(2)]	2.07	2.15	0.83	2.05	2.40	0.0C
Weighted average number of shares (in millions)	44,932.70	68,079.78	68,079.78	66,932.68	67,091.30	—
U.S. GAAP[(3)]:						
Interest revenue	755,290	763,123	480,239	591,934	708,079	1,377,023
Interest expense	(440,435)	(367,934)	(216,785)	(225,917)	(317,554)	(617,557)
Net interest revenue	314,855	395,188	263,454	366,017	390,525	759,466
Provisions for loan losses	(57,231)	(114,321)	(29,106)	(32,653)	(23,013)	(44,754)
Net income	53,372	18,184	138,471	152,202	168,830	328,327
Earnings per share[(1)]	1.19	0.27	2.03	2.27	2.52	0.0C
Weighted average number of total shares[(4)]	57,587	68,080	68,080	66,933	67,091	—

	At or for the year ended December 31,					
	2001	2002	2003	2004	2005	2005
	(in millions of constant Ch$ as of December 31, 2005, except share data)					(in thousands of U.S.$)
CONSOLIDATED BALANCE SHEET DATA						
Chilean GAAP:						
Cash and due from banks	583,223	725,477	909,872	922,678	659,308	1,282,177
Financial investments	1,822,429	1,714,849	2,034,944	1,665,136	1,450,009	2,819,877
Loans, net of allowances	4,116,533	6,376,630	6,452,059	6,977,636	8,064,619	15,683,512
Other assets	200,396	398,141	425,598	431,125	518,825	1,008,975
Total assets	6,722,581	9,215,097	9,822,473	9,996,575	10,692,761	20,794,541
Deposits	4,078,609	5,511,755	5,643,263	5,994,408	6,613,988	12,862,426
Other interest bearing liabilities	1,761,106	2,449,985	2,729,985	2,447,197	2,244,045	4,364,063
Other liabilities	442,900	590,294	710,487	856,153	1,059,621	2,060,677
Total liabilities	6,282,615	8,552,034	9,083,735	9,297,758	9,917,654	19,287,166
Shareholders' equity	Ch$ 439,966	Ch$ 663,063	Ch$ 738,738	Ch$ 698,817	Ch$ 775,107	U.S.$ 1,507,375
U.S. GAAP[3]:						
Financial investments	1,796,186	1,538,120	1,731,979	1,539,640	1,119,452	2,177,033
Loans, net	6,128,834	6,017,489	6,092,568	6,516,434	7,442,916	14,474,468
Total assets	9,554,036	9,221,189	9,777,354	9,925,518	10,626,463	20,665,609
Total liabilities	8,303,863	7,848,405	8,353,718	8,553,570	9,196,716	17,885,136
Total shareholders' equity	1,250,172	1,372,782	1,423,636	1,371,948	1,429,747	2,780,471

	At or for the year ended December 31,				
	2001	2002	2003	2004	2005
CONSOLIDATED RATIOS					
Chilean GAAP:					
Profitability and Performance					
Net interest margin(5)	3.87%	4.52%	2.75%	3.84%	4.06%
Return on average total assets(6)	1.44	0.59	1.45	1.59	1.75
Return on average shareholders' equity(7)	23.21	8.69	20.01	23.56	26.66
Capital					
Average shareholders' equity as a percentage of average total assets	6.21	6.75	7.22	6.75	6.56
Bank regulatory capital as a percentage of minimum regulatory capital	197.67	218.35	202.71	179.13	184.06
Ratio of liabilities to regulatory capital(8)	18.27	14.10	15.14	17.20	16.69
Credit Quality					
Substandard loans as a percentage of total loans(9)	6.28	6.69	5.16	6.51	4.62
Past due loans as a percentage of total loans	1.23	2.35	1.69	1.23	0.87
Allowances for loan losses as a percentage of substandard loans(9)	54.60	52.44	55.56	34.30	37.26
Allowances for loan losses as a percentage of past due loans	278.72	149.07	170.09	181.59	198.05
Allowances for loan losses as a percentage of total loans	3.43	3.51	2.87	2.23	1.72
Past due amounts as a percentage of bank regulatory capital	15.26	25.63	18.67	16.23	12.00
Consolidated risk index(10)	2.42	3.00	2.36	2.23	1.72
Operating Ratios					
Operating expenses/operating revenue	52.58	60.20	53.43	51.29	53.33
Operating expenses/average total assets	2.30	2.77	2.46	2.51	2.68
U.S. GAAP:					
Profitability and Performance					
Net interest margin(11)	5.12	4.53	3.03	4.13	4.29
Return on average total assets(12)	0.80	0.19	1.44	1.53	1.64

(1) Earnings per share data have been calculated by dividing net income by the weighted average number of common shares outstanding during the year.
(2) Dividends per share data are calculated by dividing the amount of the dividend paid by the number of shares outstanding.
(3) All U.S. GAAP numbers use Article 9 presentation. All U.S. GAAP figures have been calculated taking into account the U.S. GAAP adjustments set forth in Note 28 to our audited consolidated financial statements.
(4) For the year ended December 31, 2001, Banco de Chile's and Banco de A. Edwards' shares have been combined as of March 27, 2001. For 2004, the weighted average of shares outstanding includes the effect of the repurchase of our shares during 2004. For 2005, the weighted average of shares outstanding includes the effect of the sell of 1,701,994,590 shares issued by the Banco the Chile in accordance with the Share Repurchase Program issued by Banco de Chile.
(5) Net interest revenue divided by average interest earning assets. The average balances for interest earning assets, including interest and readjustments, have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries.
(6) Net income (loss) divided by average total assets. The average balances for total assets have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries.
(7) Net income (loss) divided by average shareholders' equity. The average balances for shareholders' equity have been calculated on the basis of our daily balances.
(8) Total liabilities divided by bank regulatory capital.
(9) See "Item 4. Information on the Company—Selected Statistical Information—Analysis of Substandard Loans and Amounts Past Due."
(10) The guidelines used to calculate our consolidated risk index were amended in 2004. As a result, our consolidated risk index as of December 31, 2004 and 2005 are not comparable to the consolidated risk index presented for preceding 2004. See Note 1 to our audited consolidated financial statements.
(11) Net interest revenue under U.S. GAAP divided by average interest earning assets.
(12) Net income under U.S. GAAP divided by average total assets.

Exchange Rates

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

Purchases and sales of foreign exchange which may be effected outside the Formal Exchange Market can be carried out in the *Mercado Cambiario Informal*, or the Informal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the observed exchange rate. On December 30, 2005 (the latest practicable date, as December 31, 2005 was a banking holiday in Chile), the average exchange rate in the Informal Exchange Market was Ch$512.05 per U.S.$1.00, or 0.42% lower than the published observed exchange rate of Ch$514.21 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 2001, as reported by the Central Bank:

	Daily Observed Exchange Rate Ch$ per U.S.$(1)			
Year	**Low(2)**	**High(2)**	**Average(3)**	**Period End(4)**
2001	Ch$ 557.13	Ch$ 716.62	Ch$ 634.94	Ch$ 656.20
2002	641.75	756.56	688.94	712.38
2003	593.10	758.21	691.40	599.42
2004	559.21	649.45	609.55	559.83
2005	509.70	592.75	559.77	514.21
December	509.70	518.63	514.33	514.21
2006				
January	512.50	535.36	524.48	524.78
February	516.91	532.35	525.70	517.76
March	516.75	536.16	528.77	527.70
April	511.44	526.18	517.33	518.62
May	512.76	532.92	520.79	531.11
June(5)	529.91	547.83	540.57	545.64

Source: Central Bank.
(1) Nominal amounts.
(2) Exchange rates are the actual low and high, on a day-by-day basis for each period.
(3) The average of monthly average rates during the year.
(4) As reported by the Central Bank the first business day of the following period.
(5) Period from June 1, 2006 through June 22, 2006.

The observed exchange rate on June 22, 2006 was Ch$545.64 = U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

RISK FACTORS

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

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

Risks Relating to our Operations and the Banking Industry

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

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

On October 12, 2005, we entered into agreements with the OCC, and separately with the Financial Crimes Enforcement Network, or FinCEN, requiring a U.S.$3 million civil penalty, payable by our New York and Miami branches, to resolve allegations related to the Bank Secrecy Act, anti-money laundering compliance and related matters. Failure by us to satisfy the terms of the orders could result in additional supervisory actions against our New York and Miami branches, including the assessment of additional civil monetary penalties. See "Item 8. Financial Information—Legal Proceedings."

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

From December 31, 2001 to December 31, 2005, our aggregate loan portfolio, net of interbank loans (on an unconsolidated basis) grew by 124.2% in nominal terms and 102.9% in real terms to Ch$8,073,288 million. During the same period, our consumer loan portfolio grew by 315.0% in nominal terms and 275.7% in real terms to Ch$864,144 million, each calculated in accordance with the loan classification system of the Chilean Superintendency of Banks. On a combined basis (combining Banco de Chile and Banco de A. Edwards), from December 31, 2001 to December 31, 2005, the aggregate loan portfolio of both banks, net of interbank loans (on an unconsolidated basis) grew by 39.0% in nominal terms and 25.9% in real terms to Ch$8,073,288 million. During the same period, on a combined basis, the consumer loan portfolio of both banks grew by 123.0% in nominal terms and 101.9% in real terms to Ch$864,144 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, 2005, total provision for loan losses accounted for Ch$22,028 million, or 0.29%, of total average loans.

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

We cannot assure you that in the future our loan portfolio will continue to grow at historical rates. According to the Chilean Superintendency of Banks, from December 31, 2001 to December 31, 2005, the aggregate amount of loans outstanding in the Chilean banking system (on an unconsolidated basis) grew by 48.2% in nominal terms and 34.2% in real terms to Ch$44,243,988 million. A reversal of this rate of growth of the Chilean economy could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses. See "Item 4. Information on the Company—Regulation and Supervision" and "Item 4. Information on the Company —Selected Statistical Information."

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

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

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

Increased competition and industry consolidation may adversely affect our operations.

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

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

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

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

Although we historically emphasized banking for the wholesale market and high income individuals, an increasing proportion of our retail market consists of middle-sized and small companies (approximately 7.8% of the value of our total loan portfolio at December 31, 2005, including companies with annual sales of up to Ch$1,200 million) and, to a lesser extent, of lower income individuals (approximately 2.8% of the value of our total loan portfolio at December 31, 2005, including individuals with monthly incomes between Ch$170,000 and Ch$380,000). Our strategy includes increasing lending and providing other services to attract additional retail customers. These customers are likely to be more severely affected by adverse developments in the Chilean economy than large corporations and high-income individuals. Consequently, in the future we may experience higher levels of past due loans, which could result in higher allowances for loan losses. The levels of past due loans and subsequent write-offs may be materially higher in the future. See "Item 4. Information on the Company—Business Overview—Principal Business Activities."

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

As of December 31, 2005, Sociedad Administradora de la Obligacion Subordinada SAOS S.A., or SAOS, our affiliate, holds 42.0% of our shares as a consequence of our 1996 reorganization. The reorganization was partially due to our 1989 repurchase from the Central Bank of certain non-performing loans that we had previously sold to the Central Bank and later exchanged for subordinated debt without a fixed term. Under the terms of a repayment obligation in favor of the Central Bank that SAOS assumed to replace the Central Bank subordinated debt, SAOS may be required to sell some of our shares to the public. See "Item 4. Information on the Company—History and Development of the Bank—History—The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt."

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile S.A., a holding company that controls us and SAOS, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. As a result of the share dividend paid in May 2006, the percentage further decreased to 41.4%. 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 May 2, 2006, SAOS maintained a deficit balance with the Central Bank of Ch$10,480 million, equivalent to 1.67% of our capital and reserves. As of the same date, Ch$125,250 million would have represented 20.0% of our capital and reserves. If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth, and to distribute stock dividends among our shareholders, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. The shareholders of SM-Chile will have a right of first refusal with respect to that sale.

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

Our results of operations are affected by interest rate volatility.

Our results of operations depend to a great extent on our net interest revenue, which represented 71.3% of our operating revenue in 2005. Changes in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, leading to a reduction in our net interest revenue. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors. Any volatility in interest rates could have a material adverse effect on our financial condition or results of operations. The average annual short-term interest rate (based on the rate paid by Chilean financial institutions) for 90 to 360 day deposits was 1.76% in 2003, 1.07% in 2004 and 1.89% in 2005. The average long-term interest rate based on the Central Bank's eight-year bonds was 3.96% in 2003, 3.52% in 2004 and 2.54% in 2005. See "Item 5. Operating and Financial Review and Prospects—Operating Results—Overview—Inflation" and "Item 5. Operating and Financial Review and Prospects — Operating Results—Overview—Interest Rates."

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

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

Risks Relating to our ADSs

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

As of May 11, 2006, LQ Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco S.A., beneficially owned approximately 50.29% 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.

We merged with Banco de A. Edwards, a Chilean Bank, effective as of January 1, 2002. Prior to the merger, there was no public market for our shares outside Chile or for our ADSs. While our ADSs have been listed on the New York Stock Exchange, or NYSE, since the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will be sustained. During 2005, a daily average of 7,696 American Depositary Receipts, or ADRs, were traded on the NYSE. Although our shares are traded on the Santiago

Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange, the market for our shares in Chile is small and illiquid. At December 31, 2005, approximately 12.87% of our outstanding shares are held by shareholders other than our principal shareholders, including SM-Chile and SAOS.

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

You may be unable to exercise preemptive rights.

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

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

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

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

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

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

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

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

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

Risks Relating to Chile

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

The Chilean government's economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could affect the dollar value of our common stock and our ADSs. The peso has been subject to large devaluations in the past and could be subject to significant fluctuations in the future. In the period from December 31, 1998 to December 31, 2005, the value of the U.S. dollar relative to the Chilean peso increased approximately 0.24%, as compared to an 11.36% decrease in value in the period from December 31, 2004 to December 31, 2005.

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

Our results of operations may be affected by fluctuations in the exchange rates between the peso and the U.S. dollar despite our policy and Chilean regulations relating to the general avoidance of material exchange rate mismatches. In order to reduce the effect of exchange rate mismatches we enter into forward exchange transactions. As of December 31, 2005, the net position of our foreign currency denominated assets and Chilean peso-denominated assets, which contain repayment terms linked to changes in foreign currency exchange rates, exceeded our foreign currency denominated liabilities and Chilean peso-denominated liabilities, which contain repayment terms linked to changes in foreign currency exchange rates, by Ch$26,451 million, or 4.5% 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.

Although Chilean inflation has moderated in recent years, Chile has experienced high levels of inflation in the past. High levels of inflation in Chile could adversely affect the Chilean economy and, indirectly, the value of our ADSs. The annual rate of inflation (as measured by changes in the Consumer Price Index and as reported by the Chilean National Institute of Statistics) during the last five years ended December 31, 2005 and the first five months of 2006 was:

Year	**Inflation (Consumer Price Index)**
2001	2.6%
2002	2.8
2003	1.1
2004	2.4
2005	3.7
2006 (through May 31)	1.5%

Source: Chilean National Institute of Statistics

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

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

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

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

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

There are also important differences between Chilean and U.S. accounting and financial reporting standards. As a result, Chilean financial statements and reported earnings generally differ from those that would be reported based on U.S. accounting and reporting standards. See Note 28 to our audited consolidated financial statements.

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

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

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

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

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

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

- changes in general economic, business, political or other conditions in Chile or changes in general economic or business conditions in Latin America;
- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies;
- increased costs;
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms; and
- the factors discussed under "—Risk Factors."

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

Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE BANK

Overview

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

Our legal name is Banco de Chile. We are organized as a banking corporation under the laws of Chile and are licensed by the Chilean Superintendency of Banks to operate as a commercial bank. Our principal executive offices are located at Ahumada 251, Santiago, Chile. Our telephone number is +56 (2) 637-1111 and our website is www.bancochile.cl. Our registered agent in the United States is Banco de Chile, New York Branch, located at 535 Madison Avenue, 9th Floor, New York, New York 10022, telephone number +1 (212) 758-0909.

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

- wholesale market;
- retail market;
- international banking;
- treasury and money market operations; and
- operations through subsidiaries.

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

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

As of December 31, 2005, we had:

- total assets of Ch$10,692,761 million (U.S.$20,795 million);
- loans outstanding of Ch$8,205,924 million (U.S.$15,958 million);
- deposits of Ch$6,613,988 million (U.S.$12,862 million); and
- shareholders' equity including net income of Ch$775,107 million (U.S.$1,507 million).

According to information published by the Chilean Superintendency of Banks, as of December 31, 2005, we were the second largest private bank in Chile in terms of total loans (excluding interbank loans) with a market share of 18.25%.

We are headquartered in Santiago, Chile and, as of December 31, 2005, had 10,157 employees and delivered financial products and services through a nationwide network of 248 branches and 1,258 ATMs that form part of a network of 4,807 ATMs operated by Redbanc S.A., a company owned by us and 13 other private sector financial institutions.

History

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

Merger with Banco de A. Edwards

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

We concluded the merger process at the end of 2002 with the consolidation of a new corporate structure and the integration of our technological platforms. In 2001 and 2002, we incurred merger related costs of approximately Ch$15,639 million and Ch$33,108 million, respectively. No further costs related to the merger have been incurred since 2002.

Neos and Related Projects

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

During 2005, we successfully concluded the implementation of the Enterprise Resource Planning system, which, in its orientation towards self-service applications, provides human resources solutions. We also deployed a Customer Relationship Management, or CRM, service platform in all our retail branches and call centers. It will mainly permit preventive functions, the management of commercial campaigns and the tracking of credit approvals. From 2006 to 2007, we will continue replacing credit card and cashier systems and will introduce more sophisticated CRM functions, such as the automation of sales and post-sales procedures and the substitution of the checking account and deposit taking systems.

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$1,114,606 million, or U.S.$2,168 million, required that a certain percentage of our income before provisions for the subordinated debt be applied to repay this obligation. The Central Bank subordinated debt did not have a fixed maturity, and payments were made only to the extent that we earned income before provisions for the subordinated debt. In 1993 we applied 72.9% of our income before provisions for the Central Bank subordinated debt to the repayment of this debt. In 1994 we applied 67.6% and in 1995 we applied 65.8% of our income before provisions for the Central Bank subordinated debt to the repayment of this debt.

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

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

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile, a holding company that beneficially owns SAOS and us, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. As a result of the share dividend paid in May 2006, the percentage further decreased to 41.4%. 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 May 2, 2006, SAOS maintained a deficit balance with the Central Bank of Ch$10,480 million, equivalent to 1.67% of our paid-in capital and reserves. As of the same date, Ch$125,250 million would have represented 20.0% 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."

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

Capital Expenditures

The following table reflects our capital expenditures in each of the three years ended December 31, 2003, 2004 and 2005:

	For the Year Ended December 31,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)					
Computer equipment	Ch$	3,629	Ch$	7,096	Ch$	8,206
Furniture, machinery and installations		2,652		4,802		7,381
Real estate		630		411		2,341
Vehicles		315		444		344
Subtotal		7,226		12,753		18,272
Software		4,681		7,816		7,259
Total	Ch$	11,907	Ch$	20,569	Ch$	25,531

Our budget for capital expenditures in 2006 is Ch$54,258 million, substantially all of which will be used in Chile. Capital expenditures planned for 2006 consist mainly of expenditures for information technology, including new treasury and anti-money laundering software and the continued implementation of "Neos." We also expect to open new branches, refurbish some existing branches, upgrade our communication systems and perform other maintenance in the ordinary course of our business.

BUSINESS OVERVIEW

Business Strategy

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

Expand Retail Customer Base

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

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

Expand Fee-Based Services

In recent years, our margins from traditional lending activities have declined significantly and, as a result, we have increasingly shifted our focus to developing other sources of revenue, such as fee-based products and services. Our consolidated income from fees and other services has continued to grow over the last three years and was Ch$131,408 million (U.S.$256 million) and Ch$137,793 million (U.S.$268 million) in 2004 and 2005, respectively, representing an average annual increase of 16.4% from Ch$101,787 million in 2003. We seek to continue to grow our fee-based revenues by developing new services and by strategically cross-selling these services to our base of existing retail and wholesale banking customers. For our wholesale banking customers, we intend to actively market new and existing fee-based services such as electronic banking, receivables collection, payroll services, supplier payments, investment advisory services and cash management. For our retail banking customers, we intend to increase revenues from new and existing fee-based services such as electronic banking, ATMs, general checking services, credit cards, mutual funds, securities brokerage and insurance brokerage.

Maximize Operating Efficiencies

In 2005, our consolidated operating expenses represented approximately 53.3% of our operating revenue. As the Chilean banking sector continues to grow, we believe that a low-cost structure will become increasingly important to our ability to compete profitably.

We have invested heavily in technology during recent years (approximately Ch$8,310 million in 2003, Ch$14,912 million in 2004 and Ch$15,465 million (U.S.$30.1 million) in 2005) and plan to continue to focus on technology in the future to achieve further improvements in customer service and operating efficiency. In 2003, we began the first stage of "Neos," our technological innovation platform that provides us with customer information that includes demographic information, cross-selling opportunities, customer complaints and credit tracking. In 2004 and 2005, capital expenditures associated with "Neos" amounted to Ch$5,253 million and Ch$8,484 million (U.S.$16.5 million), respectively. We estimate that our "Neos" related capital expenditures will amount to Ch$10,773 million (U.S.$21.0 million) in 2006.

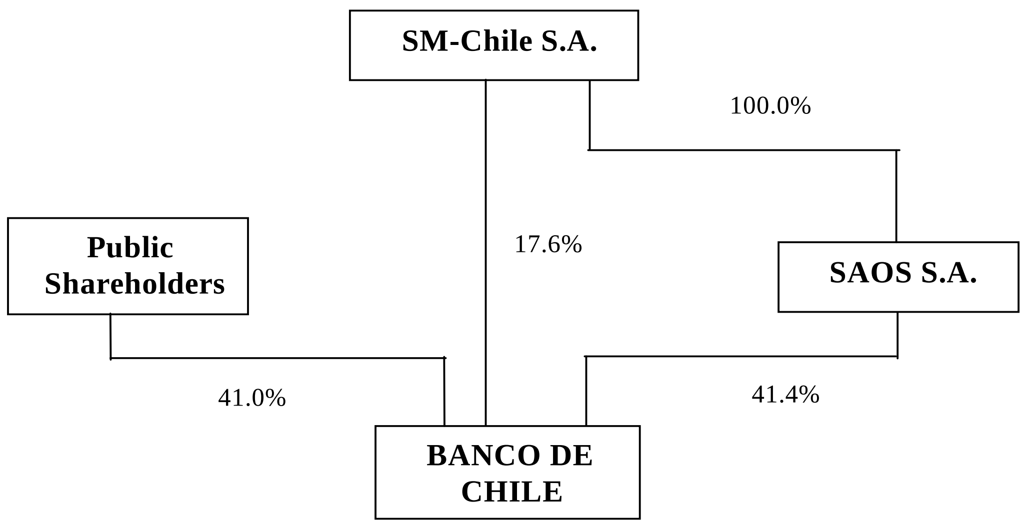
Provide Competitive International Products and Services

We intend to provide to our primarily Chilean customer base a complete array of international products at competitive prices. Our primary focus in this respect will be on trade financing of customer related operations, which is one of our traditional areas of international activity. In order to strengthen our relationships with Chilean businesses engaged in international trade, we intend to emphasize the integrated services offered by our New York and Miami branches, in addition to our trade services subsidiary in Hong Kong and our representative offices in Mexico City, Sao Paulo and Buenos Aires.

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

Ownership Structure

The following diagram shows ownership structure at May 12, 2006:



Share Repurchase Program

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

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

Under the terms of the share repurchase program:

- The maximum percentage of shares that we were permitted to repurchase could not exceed 3% of our paid-in capital;
- The minimum price that we were permitted to pay for the shares was the weighted average of the closing prices of the shares as quoted by the Santiago Stock Exchange for the 45 business days preceding the repurchase, and the maximum price was 15% higher than that average;
- If the shares that we repurchased were not resold within 24 months of acquisition, paid-in capital could be reduced by the amount of shares we repurchased that were not resold;

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

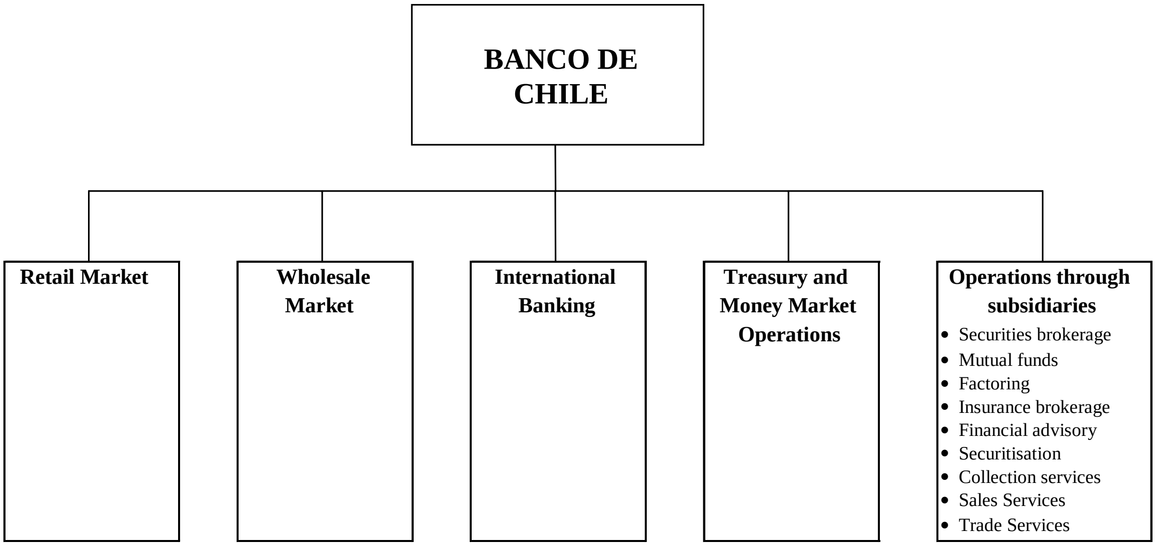
- Repurchased shares, although registered in our name, did not have voting or dividend rights.

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

On March 24, 2005, our board of directors resolved to resell 1,701,994,590, or 100%, of the shares we acquired through the program. On May 5, 2005, the Central Bank set a sale price of UF0.002031, the equivalent of Ch$35.10, per share. Of the shares to be resold, 968,822,755, or 1.42% of shares outstanding, were offered to our shareholders for a 30-day preemptive rights period that ended June 22, 2005. 1,114,857 shares were sold during this period. The remaining 733,171,835 shares, or 1.08% of shares outstanding, were offered in a tender offer to SM-Chile’s series A, B and D shareholders which began on June 23, 2005 and closed on July 22, 2005. The 1,699,220,748 shares that were not resold to our shareholders or SM-Chile’s series A, B or D shareholders in the preemptive offering or tender offer, as applicable, were sold in a public offering in the Santiago Stock Exchange from July 26, 2005 to August 1, 2005. The settlement date was August 2, 2005.

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 areas, which we conduct directly or, in the case of “Operations through subsidiaries,” through our subsidiaries:



The following table provides information on the composition of our loan portfolio and our consolidated net income before tax for the year ended December 31, 2005, allocated among our principal business areas:

	Loans			Consolidated net income before tax (1)	
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)				
Retail market	Ch$	3,399,892	41.4%	Ch$	114,556
Wholesale market		4,429,620	54.0		64,992
International banking		206,394	2.5		(6,101)
Treasury and money market operations		26,791	0.3		15,751
Operations through subsidiaries		143,227	1.8		26,522
Other (adjustments and eliminations)		—	—		(13,605)
Total	Ch$	8,205,924	100.0%	Ch$	202,115

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

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

	For the Year Ended December 31,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)					
Retail market	Ch$	231,713	Ch$	259,127	Ch$	285,020
Wholesale market		114,621		106,933		118,486
International banking		16,565		12,177		13,833
Treasury and money market operations		22,535		28,175		18,831
Operations through subsidiaries		56,175		68,058		70,074
Other (adjustments and eliminations)		900		12,266		12,207
Total	Ch$	442,509	Ch$	486,73	Ch$	518,451

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

	For the Year Ended December 31,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)					
Chile	Ch$	426,9	Ch$	475,31	Ch$	504,876
Banking operations		370,7		407,25		434,976
Operations through subsidiaries		56,1		68,05		69,900
Foreign operations		15,5		11,42		13,575
New York		12,5		8,98		10,570
Miami		3,0		2,43		2,831
Operations through subsidiaries		—		—		174
Total	Ch$	442,5	Ch$	486,73	Ch$	518,451

Retail Market

Our retail market business area serves the financial needs of individuals and middle market companies through our branch network comprised by 248 branches.

As of December 31, 2005, loans to our retail market represented 41.4% of our total loans outstanding and our retail market business area accounted for approximately Ch $114,556 million of our net income before tax for the year ended December 31, 2005.

The following table sets forth the composition of our retail market business area's loan portfolio as of December 31, 2005:

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005, except for percentages)		
Consumer loans	Ch$	860,186	25.3%
Commercial loans		738,003	21.7
Mortgage loans		585,628	17.2
Leasing contracts		107,979	3.2
Contingent loans		34,581	1.0
Foreign trade loans		22,786	0.7
Other loans[(1)]		1,050,729	30.9
Total	Ch$	3,399,892	100.0%

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

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

Individuals and Middle Market Division

The individuals and middle market division is responsible for offering financial services to individuals with incomes of over Ch$380 thousand monthly (or Ch$4.6 million annually) and to small and medium-sized companies with annual sales of up to Ch$1,200 million. The individuals and middle market division manages that portion of our branch network that operates under the brand names Banco Chile and Banco Edwards. We had 177 such branches at December 31, 2005.

The individuals and middle market division has a range of management tools that measure returns, cross-sell products, track performance and track 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, 2005, the individuals and middle market division served more than 385,000 individual customers and over 42,000 companies, resulting in loans outstanding to approximately 328,000 debtors, including approximately 43,557 residential loans, 32,081 commercial loans, 296,062 approved lines of credit, 164,523 other consumer loans and 315,244 credit card accounts. At the same date, we maintained 407,813 checking accounts, 147,320 savings accounts and 84,686 time deposits related to individuals.

As of December 31, 2005, loans originated by our individuals and middle market division represented 38.6% 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, 2005:

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005, except for percentages)		
Consumer loans	Ch$	685,637	21.6%
Commercial loans		737,916	23.3
Mortgage loans		537,018	17.0
Leasing contracts		107,418	3.4
Contingent loans		34,575	1.1
Foreign trade loans		22,786	0.7
Other loans[1]		1,041,573	32.9
Total	Ch$	3,166,923	100.0%

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

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

Installment Loans

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

At December 31, 2005, we had Ch$441,375 million in installment loans, which accounted for 64.4% of the retail market business area consumer loans. A majority of installment loans are denominated in pesos and are payable monthly.

Mortgage Loans

At December 31, 2005, there were outstanding mortgage loans to individuals of Ch$443,375 million, which represented 13.0% of the retail market total loans and 5.4% 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 are currently funded through the issuance of mortgage finance bonds, which are recourse obligations with payment terms that are matched to the residential loans and which bear a real market interest rate plus a fixed spread over the rate of change in the UF. Chilean banking regulations limit the amount of a residential mortgage loan that may be financed with a mortgage finance bond to the lesser of 75% of the purchase price of the property securing the loan or the appraised value of such property. In addition, we generally require that the monthly payments on a residential mortgage loan not exceed 25% of the borrower's household after-tax monthly income.

We have promoted the expansion of *Mutuos Hipotecarios*, a mortgage-lending product, as an alternative form to traditional financing of mortgage loans with mortgage bonds. Whereas our traditional mortgage loans are financed by means of mortgage finance bonds, *Mutuos Hipotecarios* are financed with our general funds, especially long-term subordinated bonds. *Mutuos Hipotecarios* offer the opportunity to finance 80% of the lower of the purchase price or the appraised value of the property, as opposed to the 75% that a standard mortgage would allow.

At December 31, 2005, 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 14.5% of the residential mortgage loans in the Chilean banking system and approximately 19.7% of such loans made by private sector banks.

Credit Cards

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

As of December 31, 2005, we had 317,571 valid credit card accounts, with 458,896 credit cards to individuals. Total charges on our credit cards during 2005 amounted to Ch$479,490 million, with Ch$418,804 million corresponding to purchases and service payments in Chile and abroad and Ch$60,686 million corresponding to cash advances (both within Chile and abroad). These charge volumes represent a 27.2% market share in terms of volume of use of bank credit cards issued in Chile.

As of December 31, 2005, our credit card loans to individuals amounted to Ch$92,021 million and represented 13.4% of our retail market business area's consumer loans.

Two Chilean companies that are affiliated with us, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2005, Transbank S.A. had 17 shareholders and Nexus S.A. had seven shareholders, all of which are banks. As of December 31, 2005, our equity ownership in Transbank S.A. was 17.4% and our equity interest in Nexus S.A. was 25.8%.

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

Debit Cards

We have different types of debit cards. Depending on their specifications, these cards can be used for banking transactions on the ATMs that operate on the local network, Redbanc, the Visa International PLUS network, the local network of merchants participating in the local Redcompra debit program or the international network of merchants associated with the Electron program. We have given these debit cards different names (*Chilecard*, *Chilecard Plus*, *Chilecard Electron*, *Chilecard Empresas*, *Banjoven*, *Cheque Electronico, Multiedwards, Cuenta Directa* and *Cuenta Familiar*) based on their specific functions and the relevant brand and target market to which they are oriented. As of September 30, 2005, we had a 29.3% market share of debit card transactions, with approximately 11 million transactions performed as of that date.

Lines of Credit

We had approximately 294,600 approved lines of credit to individual customers as of December 31, 2005 and outstanding advances to 197,024 individuals totaling Ch$150,998 million, or 5.8% of the retail market total loans.

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

Deposit Products

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

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

At December 31, 2005, we administered 365,443 checking accounts for approximately 350,940 individual customers with an aggregate balance of Ch$462,093 million. At such date, our checking account balances totaled approximately Ch$1,516,219 million and represented 15.3% of our total liabilities.

The principal financial services offered to small and medium size companies with annual sales of up to Ch$1,200 million by the individuals and middle market division include a complete range of products, such as various financing options, support in import and export transactions, collection services, payments and collections, leasing agreements, factoring services, checking account services, investment management, insurance broking, currency trading, transfers and payments to and from abroad. At December 31, 2005 we had approximately 39,460 middle market companies with checking accounts and 21,460 debtors.

Commercial Loans

Our individuals and middle market division's commercial loans, which mainly consist of project financing and working capital loans, are denominated in pesos, UF or U.S. dollars. Commercial loans may have fixed or variable rates of interest and generally mature between one and three months from the date of the loan. At December 31, 2005, our middle market companies had outstanding commercial loans of Ch$382,776 million, representing 11.3% of the retail market business area's total loans and 4.7% 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. At December 31, 2005 our middle market companies had outstanding leasing contracts of Ch$73,847 million, representing 2.2% of the retail market and 0.9% of our total loans at that date.

Mortgage Loans

Mortgage loans granted to middle market companies are non-residential mortgage loans made to finance office, land and other real estate. Mortgage loans are denominated in UF and generally have maturities of between eight and 12 years. At December 31, 2005, middle market companies had outstanding mortgage loans of approximately Ch$93,643 million, representing 2.8% of the retail market business area's total loans and 1.1% of our total loans at such date.

Banco CrediChile Division, or Banco CrediChile

The Banco CrediChile division offers loans and other financial services to the lower-middle to middle income portions of the Chilean population, which historically have only been partially served by banking institutions. This bracket includes individuals whose monthly incomes fluctuate between Ch$170 thousand and Ch$380 thousand and, recently, to micro-businesses. Banco CrediChile represents a distinct delivery channel for our products and services in this bracket, maintaining a separate brand and network of 71 Banco CrediChile branches. Banco CrediChile was established in 2004 from what was formerly our consumer banking division.

Banco CrediChile offers our customers a range of products, including consumer loans, credit cards, auto loans and residential mortgage loans and a special demand deposit account (see "—Bancuenta" below) targeted at low-income customers. At December 31, 2005, Banco CrediChile had approximately 191,453 customers and total loans outstanding of Ch$232,969 million, representing 2.8% of our total loan portfolio at that date.

The following table sets forth the composition of our portfolio of loans to Banco CrediChile as of December 31, 2005:

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005, except for percentages)		
Consumer loans	Ch$	174,549	74.9%
Mortgage loans		48,610	20.9
Other loans		9,810	4.2
Total	Ch$	232,969	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 areas, especially our wholesale market, by offering services to employers such as direct deposit capabilities that stimulate the use of our services by employees.

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

Consumer Lending

Banco CrediChile provides short- to medium-term consumer loans and credit card services. As of December 31, 2005, Banco CrediChile had approximately 163,790 consumer loans that totaled Ch$160,553 million outstanding. As of the same date, Banco CrediChile customers had 97,840 valid credit card accounts, with outstanding balances of Ch$13,985 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 4,807 ATMs available through the Redbanc network.

At December 31, 2005, Banco CrediChile had approximately 503,070 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 area serves the needs of corporate customers with annual sales in excess of Ch$1,200 million. At December 31, 2005, loans made by this business area totaled approximately Ch$4,429,620 million and represented 54.0% of our total loan portfolio. Our wholesale banking business area accounted for approximately Ch$64,992 million of our net income before tax for the year ended December 31, 2005.

The following table sets forth the composition of our portfolio of loans to the wholesale market as of December 31, 2005:

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005, except for percentages)		
Commercial loans	Ch$	2,720,444	61.4%
Foreign trade loans		489,543	11.1
Contingent loans		571,742	12.9
Leasing contracts		346,824	7.8
Mortgage loans		84,719	1.9
Other		216,348	4.9
Total	Ch$	4,429,620	100.0%

At December 31, 2005, we had approximately 7,688 wholesale debtors. Our wholesale customers are engaged in a wide spectrum of industry sectors. As of December 31, 2005, this business area's loans were mainly related to:

- financial services (approximately 32.4% of all loans made by this business area);
- construction (approximately 17.1% of loans made by this business area);
- manufacturing (approximately 14.3% of all loans made by this business area);
- trade (approximately 12.8% of all loans made by this business area); and
- agriculture (approximately 6.9% of all loans made by this business area).

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

Large Corporations Division

The large corporations division is oriented towards providing services to corporations that sell more than Ch$32 billion annually. This division's customers include a large proportion of Chile's publicly traded companies, subsidiaries of multinationals and conglomerates, including those in the financial, commercial, manufacturing and industrial and infrastructure sectors, as well as projects, concessions and the real estate sectors.

At December 31, 2005, we had 1,858 large corporations debtors. Loans to large corporations totaled approximately Ch$3,361,716 million at December 31, 2005, representing 41.0% 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, 2005:

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005, except for percentages)		
Commercial loans	Ch$	2,202,202	65.5%
Foreign trade loans		329,353	9.8
Contingent loans		445,594	13.3
Leasing contracts		165,941	4.9
Mortgage loans		31,923	0.9
Other		186,703	5.6
Total	Ch$	3,361,716	100.0%

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

We are party to approximately 3,346 payment service contracts and approximately 1,059 collection service contracts with large corporations. We believe that cash management and payment service contracts provide a source of low-cost deposits and the opportunity to cross-market our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our large corporate customers, providing centralized collection services for their accounts receivables and other similar payments.

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

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

Large Companies Division

The large companies division provides a broad range of financial products such as electronic banking, leasing, foreign trade and financial consultancy to companies with annual sales of between Ch$1,200 million and Ch$32,000 million.

At December 31, 2005, we had 5,830 large companies debtors. Loans to large companies totaled approximately Ch$1,067,904 million at December 31, 2005, representing 13.0% 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, 2005:

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005, except for percentages)		
Commercial loans	Ch$	518,242	48.5%
Foreign trade loans		160,190	15.0
Contingent loans		126,148	11.8
Leasing contracts		180,883	16.9
Mortgage loans		52,796	5.0
Other		29,645	2.8
Total	Ch$	1,067,904	100.0%

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

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

International Banking

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

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

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

As of December 31, 2005, we had Ch$550,770 million in foreign trade loans, representing 6.7% of our total loans as of that date, and Ch$150,190 million in letters of credit and other contingent obligations related to foreign trade operations, representing 1.8% of our total loans as of that date.

Our international banking business area also manages our international network. This network is made up of branches in New York and Miami, our trade services subsidiary in Hong Kong, three representative offices (located in Mexico City, Sao Paulo and Buenos Aires) and approximately 1,000 correspondent banks. We have established credit relations with approximately 200 correspondent banks and account relationships with approximately 45 correspondent banks. Additionally, we have recently obtained approvals from both the Chilean Superintendency of Banks and China's Banking Regulatory Commission to open a new representative office based in Beijing.

We use our international network in order to:

- obtain all our foreign currency funding for either trade or general purposes (short- or medium-term) for our Santiago, Chile head office and our foreign branches;
- supply additional savings alternatives to our predominantly Chilean customers;
- provide banking services to our corporate customers who operate outside of Chile;

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

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

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

The following table sets forth, as of December 31, 2005, the composition of our portfolio of loans originated through our New York and Miami branches:

	As of December 31, 2005			
	New York Branch		Miami Branch	
	(in millions of constant Ch$ as of December 31, 2005)			
Foreign trade loans	Ch$	8,087	Ch$	18,340
Commercial loans		35,016		11,162
Interbank loans		—		6
Contingent loans		3,253		1,036
Past due loans		19		—
Total	Ch$	46,375	Ch$	30,544

The following table sets forth, as of December 31, 2005, the sources of funding for our New York and Miami branches:

	As of December 31, 2005					
	New York Branch			Miami Branch		
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)					
Current accounts	Ch$	136,2	31.6%	Ch$	19,9	14.3%
Certificates of deposits and time deposits		157,8	36.7		116,1	83.0
Other demand deposits		51,9	12.1		2,2	1.6
Contingent liabilities		3,2	0.8		1,0	0.7
Foreign borrowings		45,6	10.6		59	—
Other liabilities		35,1	8.2		517	0.4
Total	Ch$	430,1	100.0%	Ch$	139,9	100.0%

New York Branch

Our New York branch was established in 1982 and provides a range of general banking services, including deposit taking, mainly to non-residents of the United States. At December 31, 2005, the New York branch had total assets of Ch$444,224 million, including a loan portfolio of Ch$46,375 million, representing 0.6% of our total loan portfolio. Of the New York branch's loans, Ch$35,016 million were commercial loans, mostly to large corporations in Chile and, to a lesser extent, to U.S. companies. The remaining Ch$11,359 million was principally foreign trade loans, amounting to Ch$8,087 million, and contingent loans (letters of credit and stand-by letters of credit), amounting to Ch$3,253 million. In 2005, our New York branch recognized net loss of Ch$6,342 million.

Investments in bonds and foreign securities were Ch$349,461 million at December 31, 2005, most of which consisted of private sector bonds. As of December 31, 2005, the New York branch had Ch$19 million in past due loans. The New York branch's allowances for loan losses totaled Ch$159 million, which represented 0.3% of the branch's loan portfolio at December 31, 2005. Although the New York branch manages its assets and liabilities locally, it follows the same credit processes as are followed in Santiago, Chile, and all credit decisions are made by our account officers and credit committees in Santiago, Chile. See "Item 8. Financial

Information—Consolidated Statements and Other Financial Information—Legal Proceedings” for a description of certain proceedings involving the New York branch.

Funding sources for the New York branch include current account, money market accounts and deposits for less than 30 days (Ch$256,331 million), time deposits (Ch$89,766 million) and foreign borrowings (Ch$45,695 million).

As of December 31, 2005, the New York branch had Ch$14,077 million in capital (including net loss of Ch$6,342 million for the year).

Miami Branch

Our Miami branch was opened in 1995 as an agency and in 2004 expanded its banking operations to become a branch. It provides a range of traditional commercial banking services, mainly to non-residents of the United States, including deposit-taking, providing credit to finance foreign trade and making loans to individuals or Chilean companies involved in foreign trade. Additionally, our Miami branch provides correspondent banking services to financial institutions, including working capital loans, letters of credit and bankers’ acceptances. At December 31, 2005, our Miami branch had total assets of Ch$145,907 million, a loan portfolio of Ch$30,544 million representing 0.4% of our total loan portfolio, and an investment portfolio of Ch$65,057 million. Our Miami branch’s loan portfolio at December 31, 2005 consisted primarily of Ch$18,340 million of foreign trade loans and Ch$11,162 million of commercial loans primarily to Latin American companies, including Chilean companies. The branch’s funding sources include demand deposits, money market accounts and deposits for less than 30 days (Ch$68,381 million), time deposits (Ch$69,955 million) and contingent liabilities (Ch$1,036 million). In 2005, our Miami branch recognized net income of Ch$794 million.

At December 31, 2005, the Miami branch did not have past due loans. Allowances for loan losses amounted to Ch$90 million, not including the Ch$161 million in country risk allowances. Although the Miami branch manages its assets and liabilities locally, it follows the same credit processes as are followed in Santiago, Chile, and all credit decisions are made by our account officers and credit committees in Santiago, Chile. See “Item 8. Financial Information—Consolidated Statements and Other Financial Information —Legal Proceedings” for a description of certain proceedings involving the Miami branch.

Representative offices

The main activities of our representative offices in Argentina, Brazil and Mexico are to search for business opportunities in the areas of trade finance and private sector financing and to monitor the development and evolving economies of these countries. These offices serve as points of contact for our customers who have business in or operate directly within these countries.

Treasury and Money Market Operations

Our treasury and money market operations business area provides a wide range of financial services to our customers including currency intermediation, forwards contracts, interest rate swaps, transactions under repurchase agreements and investment products based on bonds, mortgage notes and deposits. We also offer investments in mutual funds and stock brokerage services.

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

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

Our investment portfolio as of December 31, 2005 amounted to Ch$1,450,009 million, of which 51.6% consisted of securities issued by the Central Bank and the Chilean Government, 24.4% consisted of securities from foreign issuers, 20.4% consisted of securities issued by local financial institutions and 3.6% consisted of securities issued by Chilean corporate issuers. Our investment strategy is designed with a view to supplementing our expected profitability, risks and economic variable projections. Our investment strategy is kept within regulatory limits as well as internal limits defined by our finance and international committee.

Operations through Subsidiaries

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

The following table sets forth information with respect to our financial services subsidiaries at December 31, 2005:

	As of or for the year ended December 31, 2005					
	Assets		Shareholders' Equity		Net Income (loss)	
	(in millions of constant Ch$ as of December 31, 2005)					
Banchile Corredores de Bolsa S.A.	Ch$	282,214	Ch$	40,462	Ch$	9,476
Banchile Administradora General de Fondos S.A.		23,916		22,921		8,425
Banchile Factoring S.A.		133,385		11,782		2,142
Banchile Corredores de Seguros Ltda		2,853		2,068		747
Socofin S.A.		4,944		1,412		448
Banchile Asesoria Financiera S.A.		921		697		400
Banchile Trade Services Limited		168		131		134
Banchile Securitizadora S.A.		4,859		501		126
Promarket S.A.	Ch$	955	Ch$	451	Ch$	108
Total	Ch$	454,215	Ch$	80,425	Ch$	22,006

The following table sets out our ownership interest in our financial services subsidiaries at December 31, 2005:

	Ownership Interest		
	Direct (%)	Indirect (%)	Total (%)
Banchile Trade Services Limited	100.00	—	100.00
Banchile Administradora General de Fondos S.A.	99.98	0.02	100.00
Banchile Asesoria Financiera S.A.	99.94	—	99.94
Banchile Corredores de Seguros Limitada	99.75	0.25	100.00
Banchile Corredores de Bolsa S.A.	99.68	0.32	100.00
Banchile Factoring S.A.	99.52	0.48	100.00
Banchile Securitizadora S.A.	99.00	1.00	100.00
Socofin S.A.	99.00	1.00	100.00
Promarket S.A.	99.00	1.00	100.00

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

Securities Brokerage Services

We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores de Bolsa S.A. is registered as a securities broker with the Chilean Superintendency of Securities and Insurance, the regulator of Chilean open stock corporations, and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores de Bolsa S.A. has provided stock brokerage services, fixed income investments and foreign exchange products to individuals and businesses through our branch network. During the year ended December 31, 2005, 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$5,081,441 million. At December 31, 2005, Banchile Corredores de Bolsa S.A. had equity of Ch$40,462 million and, for the year ended December 31, 2005, net income of Ch$9,476 million, which represented 5.2% of our consolidated net income for such period.

Mutual and Investment Fund Management

Since 1980, we have provided mutual fund management services through Banchile Administradora General de Fondos S.A. (formerly Banchile Administradora de Fondos Mutuos S.A.). As of December 31, 2005, according to data prepared by the Chilean Superintendency of Securities and Insurance, Banchile Administradora General de Fondos S.A. was the largest mutual fund manager in Chile, managing approximately 25.4% of all Chilean mutual funds assets. At December 31, 2005, Banchile Administradora General de Fondos S.A. operated 45 mutual funds and managed Ch$1,772,227 million in net assets on behalf of 163,540 corporate and individual participants. Banchile Administradora General de Fondos S.A. also operates an investment fund, Banchile Inmobiliario I, and manages Ch$3,522 million in net assets on behalf of 414 participants.

The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos S.A. at December 31, 2005:

Name of Fund	Type of Fund	Net Asset Value As of December 31, 2005 (in millions of Ch$)	
Utilidades	Fixed income (short/medium term)	Ch$	112,047
Liquidez 2000	Fixed income (short term)		266,889
Deposito XXI	Fixed income (medium/long term)		167,708
Corporativo	Fixed income (short term)		248,465
Estrategico	Fixed income (medium/long term)		164,126
Corporate Dollar	Fixed income (short term)		131,361
Horizonte	Fixed income (medium/long term)		74,117
Patrimonial	Fixed income (short term)		108,227
Performance	Fixed income (short/medium term)		52,705
Banchile Acciones	Equity		95,438
Ahorro	Fixed income (medium/long term)		37,240
Alianza	Debt/Equity (medium/long term)		38,883
Disponible	Fixed income (short term)		37,255
Crecimiento	Fixed income (short/medium term)		12,795
Inversion	Debt/Equity		47,581
Inversion 10	Debt/Equity		2,209
Inversion 20	Debt/Equity		5,742
Operacional	Fixed income (short/medium term)		14,961
Capitalisa Accionario	Equity		6,885
Renta Futura	Fixed income (short/medium term)		9,894
Euro Money Market Fund	Fixed income (short term)		8,487
Emerging Fund	Debt/Equity		5,281
Latin America Fund	Debt/Equity		21,064
Cobertura	Fixed income (medium/long term)		2,908
Dolar Fund	Fixed income (medium/long term)		1,682
U.S. Fund	Debt/Equity		1,169
Global	Debt/Equity		811
U.S. High Technology Fund	Debt/Equity		384
Asia Fund	Debt/Equity		3,986
Europe Fund	Debt/Equity		482
Technology Fund	Debt/Equity		418
U.S. Stability Fund	Debt/Equity		351
International Bond	Fixed income (medium/long term)		305
Euro Technology Fund	Debt/Equity		191
Medical & Health-Care Fund	Debt/Equity		252
Inversion Dollar 30	Debt/Equity		10,607
Inversionista I	Debt/Equity		5,737
Telecommunication Fund	Debt/Equity		289
Emerging Dollar	Debt/Equity		8,198
Global Dollar	Debt/Equity		1,721
U.S. Dollar Fund	Debt/Equity		1,096
Bonsai 106 Garantizado	Fixed income (medium/long term)		22,616
Garantizado Plus	Fixed income (medium/long term)		20,957
Garantizado 112	Fixed income (medium/long term)		8,526
Chile Garantizado	Fixed income (medium/long term)		10,181
Total		Ch$	1,772,227

At December 31, 2005, Banchile Administradora General de Fondos S.A. had equity of Ch$22,921 million and, for the year ended December 31, 2005, net income of Ch$8,425 million, which represented 4.7% of our consolidated net income for such period.

Factoring Services

We provide factoring services to our customers through Banchile Factoring S.A. Through this service, we purchase our customers' outstanding debt portfolios, such as bills, notes, promissory notes or contracts, advancing them the cash flows involved and performing the collection of the related instruments. As of December 31, 2005, Banchile Factoring S.A. had net income of Ch$2,142 million, with an 18.2% return on shareholders' equity and an estimated 12.6% market share in Chile's factoring industry.

Financial Advisory Services

We provide financial advisory and other investment banking services to our customers through Banchile Asesoria Financiera S.A. The services offered by Banchile Asesoria Financiera S.A. are directed primarily to our corporate customers and include advisory services regarding mergers and acquisitions, restructuring, project finance and strategic alliances. As of December 31, 2005, Banchile Asesoria Financiera S.A. had shareholders' equity of Ch$697 million and, for the year ended December 31, 2005, net income of Ch$400 million.

Insurance Brokerage

We provide insurance brokerage services to our customers through Banchile Corredores de Seguros Limitada. At the beginning of 2000 we began to offer life insurance policies associated with consumer loans and non-credit related insurance to our individual clients and the general public. As of December 31, 2005, Banchile Corredores de Seguros Limitada had shareholders' equity of Ch$2,068 million and, for the year ended December 31, 2005, net income of Ch$747 million. Banchile Corredores de Seguros Limitada had a 3.2% market share, measured by amount of policies (in Chilean pesos) sold by insurance brokerage companies during 2004, the latest year for which information is available for insurance brokerage companies.

Securitization Services

We offer investment products to meet the demands of institutional investors, such as private pension funds and insurance companies, through Banchile Securitizadora S.A. This subsidiary securitizes financial assets, which involves the issuance of a debt instrument with a credit rating that can be traded in the Chilean marketplace, backed by a bundle of revenue-producing assets of the client company. As of December 31, 2005, Banchile Securitizadora S.A. had shareholders' equity of Ch$501 million and, for the year ended December 31, 2005, net income of Ch$126 million. Banchile Securitizadora S.A. had a 10.34% market share measured by volume of assets securitized as of December 31, 2005.

Sales Services

Promarket S.A. manages the direct sales force that sells and promotes our products and services (such as checking accounts, consumer loans and credit cards), together with those of our subsidiaries, and researches information about potential customers. As of December 31, 2005, Promarket S.A. had shareholders' equity of Ch$451 million and, for the year ended December 31, 2005, net income of Ch$108 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, 2005, Socofin S.A. had equity of Ch$1,412 million and, for the year ended December 31, 2005, net income of Ch$448 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, 2005, Banchile Trade Services Limited had equity of Ch$131 million and, for the year ended December 31, 2005, net income of Ch$134 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 1,258 ATMs (that form part of Redbanc's 4,807-ATM system) allow our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2005, we had a network of 248 retail branches throughout Chile. The branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, disburse cash, offer the full range of our retail banking products such as consumer loans, automobile financing, credit cards, mortgage loans and checking accounts and provide information to current and potential customers.

We offer electronic banking services to our customers 24 hours a day through our internet website, www.bancochile.cl, which has homepages that are segmented by market. Our individual homepage offers a broad range of services, including the payment of bills, electronic fund transfers, stop payment and non-charge orders, as well as a wide variety of account inquiries. Our corporate homepage offers services including our office banking service, *Banconexion Web*, which enables our corporate customers to perform all of their banking transactions from their offices. Both homepages offer our customers the sale of third-party products with exclusive benefits. We also have a homepage designed for our investor customers, through which they can perform transactions such as stock trading, time deposit taking and opening savings accounts. Our foreign trade customers can rely on our international business homepage, which enables them to inquire about the status of their foreign trade transactions and perform transactions such as opening letters of credit, recording import collection and hedging on instructions and letters of credit. In 2005, approximately 202,971 individual customers and 35,483 corporate customers performed close to 10.2 million transactions monthly on our website, of which 2.0 million were monetary transactions.

In addition, we provide our customers with access to a 24-hour phone-banking call center that grants them access to account information and allows them to effect fund transfers and certain payments. This service, through which we receive approximately 826,200 calls per month, has enabled us to develop customer loyalty campaigns, sell financial services and products, answer specialized inquiries about our remote services and receive and resolve complaints by customers and non-customers.

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

Competition

Overview

The Chilean market for banking and other financial services is highly competitive, and we face significant competition in each of our principal areas of operation. The Chilean financial services market consists of a number of distinct sectors. The most important sector, commercial banking, includes 25 privately owned banks and one public sector bank, Banco del Estado. The privately owned banks have traditionally been divided between those that are principally Chilean-owned, of which there are 13, and those that are principally foreign-owned, of which there are 12. At December 31, 2005, three banks together accounted for 54.0% of all outstanding loans by Chilean financial institutions, net of interbank loans: Banco Santander-Chile (22.5%), our bank (18.2%) and the public sector bank, Banco del Estado (13.3%). Chilean-owned banks together accounted for 48.4% of total loans outstanding while foreign-owned banks accounted for 38.3% of total loans outstanding.

As a commercial bank offering a range of services to all types of businesses and individual customers, we face a variety of competitors, ranging from other large, privately owned commercial banks to more specialized entities like “niche” banks. We consider the principal commercial banks in Chile to be our primary competitors, namely, Banco Santander-Chile, Banco de Credito e Inversiones, Banco Bilbao Vizcaya Argentaria Chile, or BBVA, and Corpbanca. Nevertheless, we face competition to a lesser extent from Banco del Estado, which has a larger distribution network and larger customer base than we do. Banco del Estado, which operates under the same regulatory regime as Chilean private sector banks, was the third largest bank in Chile at December 31, 2005, with outstanding loans, net of interbank loans, of Ch$5,864,383 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 area.

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

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

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

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

Non-bank competition from large department stores has become increasingly significant in the consumer-lending sector. Indeed, three new consumer-oriented banks, affiliated with Chile’s largest department stores, have been established during recent years. Although these new banks had a market share of 1.4% as of December 31, 2005, according to the Chilean Superintendency of Banks, the opening of these banks is likely to make consumer banking more competitive. Non-bank competition including mainly department stores, private compensation funds and savings and credit cooperatives accounts for an estimated 34% of the total consumer market.

The following table provides certain statistical information on the Chilean financial system as of December 31, 2005:

	As of December 31, 2005											
	Assets			Loans[1]			Deposits			Shareholders' Equity[2]		
		Amount	Share		Amount	Share		Amount	Share		Amount	Share
	(in millions of constant Ch$ as of December 31, 2005, except percentages)											
Domestic private sector banks	Ch$	27,463,214	44.7%	Ch$	21,432,885	48.4%	Ch$	16,350,985	44.4%	Ch$	2,286,724	44.5%
Foreign-owned banks		23,307,366	38.0		16,946,789	38.3		14,065,094	38.2		2,403,513	46.8
Private sector total	Ch$	50,770,580	82.7	Ch$	38,379,674	86.7	Ch$	30,416,079	82.6	Ch$	4,690,237	91.3
Banco del Estado		10,587,927	17.3		5,864,383	13.3		6,392,517	17.4		444,676	8.7
Total banking system	Ch$	61,358,507	100.0%	Ch$	44,244,057	100.0%	Ch$	36,808,596	100.0%	Ch$	5,134,913	100.0%

Source: Chilean Superintendency of Banks
(1) Net of interbank loans.
(2) Shareholders' equity includes net income for purposes of this table.

Loans

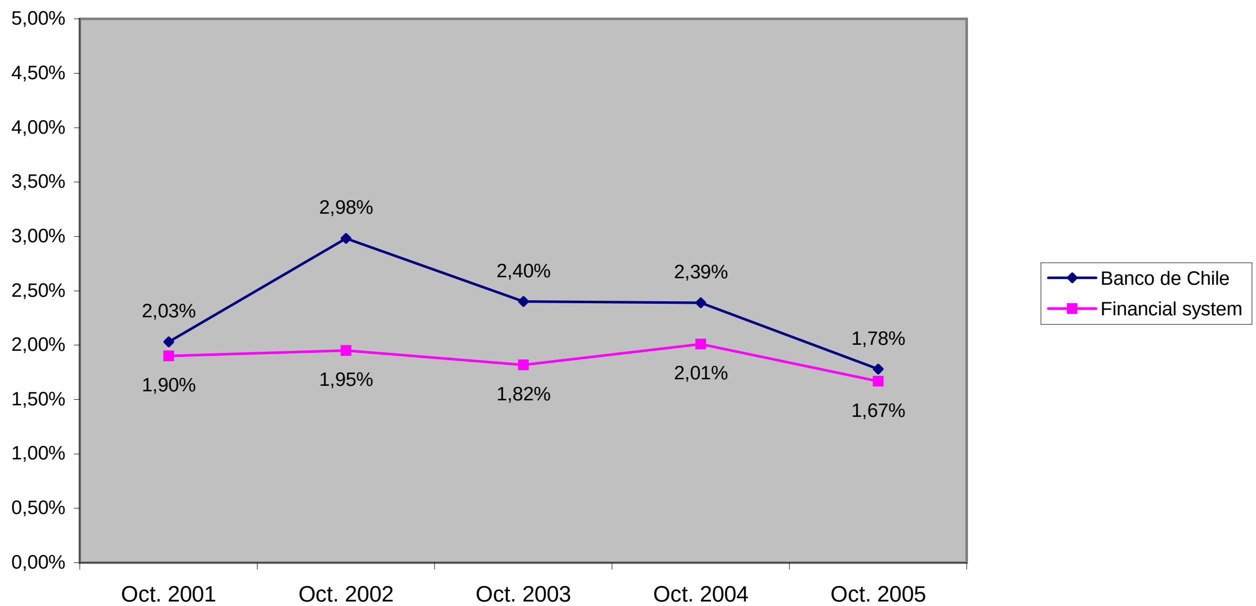
The following table sets forth our market share in terms of loans (excluding interbank loans), and our principal private sector competitors, as of the dates indicated:

	Bank Loans[1]				
	As of December 31,				
	2001	2002	2003	2004	2005
Banco Santander-Chile	11.7%	24.7%	22.6%	22.7%	22.5%
Banco de Chile	12.1	18.7	18.5	17.8	18.2
Banco de Credito e Inversiones[4]	9.0	10.4	11.2	11.8	12.5
Conosur	0.6	0.5	0.5	0.4	—
BBVA Bilbao Vizcaya	6.0	6.7	7.3	7.8	8.1
Banco Santiago[2]	16.1	—	—	—	—
Banco de A. Edwards[3]	7.4	—	—	—	—
Banco Corpbanca	4.8	5.4	6.4	6.5	6.4
Total market share	67.7%	66.4%	66.5%	67.0%	67.7%

Source: Chilean Superintendency of Banks
(1) For ease of comparison, interbank loans have been eliminated.
(2) Banco Santiago merged with Banco Santander-Chile in August 2002.
(3) Banco de A. Edwards merged with us on January 1, 2002.
(4) Banco de Credito e Inversiones merged with Conosur in 2005.

Risk Index

Our unconsolidated risk index increased in 2002 (relative to prior year) as a result of our merger with Banco de A. Edwards. Since 2002, our risk index has been decreasing as economic conditions and our collection procedures have improved. During 2005, our risk index continued to drop, and, as of October 31, 2005, we posted an unconsolidated risk index of 1.78%, slightly above 1.67%, the risk index of all Chilean banks as a whole. For a discussion of risk index, see "—Selected Statistical Information—Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines—Allowances for Loan Losses under the Previous Guidelines—Global Allowances for Loan Losses." The following graph illustrates the five-year history of our unconsolidated loan portfolio risk index compared to the risk index of total loans in the Chilean financial system as of October 31 for each of the years indicated.



Source: Chilean Superintendency of Banks

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

	Unconsolidated Risk Index As of October 31,				
	2001	2002	2003	2004[3]	2005[3]
Banco Santiago[1]	1.26%	—	—	—	—
Banco de A. Edwards[2]	3.23	—	—	—	—
Banco de Chile	2.03	2.98%	2.40%	2.39%	1.78%
Banco de Credito e Inversiones[4]	1.63	1.34	1.30	1.88	1.59
Conosur	10.80	8.50	5.88	7.35	—
BBVA Bilbao Vizcaya	1.81	1.68	1.42	1.57	1.43
Banco Santander–Chile	1.38	1.61	1.85	1.88	1.49
Banco Corpbanca	1.80	1.95	1.66	1.80	1.56
Financial system	1.90%	1.95%	1.82%	2.01%	1.67%

Source: Chilean Superintendency of Banks
(1) Banco Santiago merged with Banco Santander-Chile in August 2002.
(2) Banco de A. Edwards merged with us on January 1, 2002.
(3) The guidelines used by Chilean banks to calculate their consolidated and unconsolidated risk index were amended in 2004. Consequently, our unconsolidated risk index information (and that of the Chilean financial system) for 2004 and 2005 is not comparable to the unconsolidated risk indices presented for preceding periods. See Note 1 to our audited consolidated financial statements.
(4) Banco de Credito e Inversiones merged with Conosur in 2005.

Credit Quality

At December 31, 2005, according to information published by the Chilean Superintendency of Banks, we had an unconsolidated ratio of past due loans to total loans of 0.88%. The following table sets forth the ratio of past due loans to total loans for the four largest private sector banks at December 31 in each of the last three years:

	Past Due Loans to Total Loans As of December 31,		
	2003	2004	2005
BBVA Bilbao Vizcaya	1.91%	1.64%	1.13%
Banco Santander–Chile	2.24	1.52	1.05
Banco de Credito e Inversiones[1]	1.11	0.94	0.72
Banco de Chile	1.74	1.27	0.88
Banco Corpbanca	1.24	0.80	0.88
Conosur	0.95	0.39	—

Source: Chilean Superintendency of Banks
(1) Banco de Credito e Inversiones merged with Conosur in 2005.

Deposits

We had deposits of Ch$6,048,948 million at December 31, 2005 on an unconsolidated basis. In unconsolidated terms, our 16.4% of the market share for deposits, including borrowings from domestic financial institutions, placed us in second place among private sector banks. The following table sets forth the market shares in terms of deposits for the private sector banks with the largest market share as of December 31 in each of the last three years:

	Deposits		
	As of December 31,		
	2003	2004	2005
Banco de Chile	17.3%	16.4%	16.4%
Banco Santander–Chile	19.9	20.6	21.5
Banco de Credito e Inversiones[1]	10.7	11.3	12.0
BBVA Bilbao Vizcaya	7.7	8.3	8.0
Banco Corpbanca	6.0	5.9	5.2
Conosur	0.6	0.5	—
Total market share	62.2%	63.0%	63.1%

Source: Chilean Superintendency of Banks
(1) Banco de Credito e Inversiones merged with Conosur in 2005.

Shareholders' Equity

With Ch$594,383 million in shareholders' equity (not including net income), according to information published by the Chilean Superintendency of Banks, at December 31, 2005, we were the second largest private sector commercial bank in Chile in terms of shareholders' equity.

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

	Shareholders' Equity					
	As of December 31,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)					
Banco Santander–Chile	Ch$	860,582	Ch$	862,946	Ch$	842,1
Banco de Chile		600,104		540,694		594,3
Banco de Credito e Inversiones[1]		305,672		349,329		395,1
Banco Corpbanca		306,779		337,351		354,8
BBVA Bilbao Vizcaya		252,169		261,337		259,1
Conosur		25,253		23,488		—

Source: Chilean Superintendency of Banks
(1) Banco de Credito e Inversiones merged with Conosur in 2005.

Return on Average Shareholders' Equity

Our return on average shareholders' equity, including net income for the year, was 26.7% for the year ended December 31, 2005, according to information published by the Chilean Superintendency of Banks. The following table sets forth our return on average shareholders' equity and the returns of our principal competitors and the Chilean financial system, in each case as of December 31 in each of the last five years:

	Return on Average Shareholders' Equity Year Ended December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
Banco de A. Edwards [1]	4.3%	—	—	—	—
Banco Santiago[2]	24.0	—	—	—	—
Banco de Chile	23.2	8.7%	20.0%	23.6%	26.7%
Banco Santander-Chile	22.1	16.6	21.6	20.4	23.7
Banco de Credito e Inversiones [3]	21.8	20.4	22.1	22.8	23.4
Banco Corpbanca	18.5	18.9	15.9	14.6	13.8
BBVA Bilbao Vizcaya	6.3	8.2%	10.5%	5.3%	10.7%
Conosur	7.0	17.0	25.1	35.9	—
Financial system average	15.7%	13.5%	15.0%	15.3%	16.4%

Source: Chilean Superintendency of Banks
(1) Banco de A. Edwards merged with us on January 1, 2002.
(2) Banco Santiago merged with Banco Santander-Chile in August 2002.
(3) Banco de Credito e Inversiones merged with Conosur in 2005.

Efficiency

For the year ended December 31, 2005, our efficiency ratio (operating expenses as a percentage of our operating revenues) was 50.4% on an unconsolidated basis.

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

	Efficiency Ratio[1] As of December 31,		
	2003	**2004**	**2005**
BBVA Bilbao Vizcaya	59.3%	68.1%	67.9%
Banco de Credito e Inversiones[2]	50.9	53.1	52.7
Banco de Chile	53.9	51.2	50.4
Banco Santander-Chile	45.8	47.7	44.0
Banco Corpbanca	40.1	39.8	40.9
Conosur	62.0	62.1	—

Source: Chilean Superintendency of Banks
(1) Calculated by dividing operating expense by operating revenue.
(2) Banco de Credito e Inversiones merged with Conosur in 2005.

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. That law, amended most recently in 2004, granted additional powers to banks, including general underwriting powers for new issues of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory, mutual fund services, administration of investment funds, factoring, securitization products and financial leasing services.

Following the Chilean banking crisis of 1982 and 1983, the Chilean Superintendency of Banks assumed control of 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 organica constitucional*, or Organic Constitutional Law, and the Chilean Constitution. To the extent not inconsistent with its Organic Constitutional Law or the Chilean Constitution, the Central Bank is also subject to private sector laws, but is not subject to the laws applicable to the public sector. It is directed and administered by a board of directors composed of five members designated by the President of Chile, subject to Senate approval.

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

The Chilean Superintendency of Banks

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

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:

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

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

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

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

Limitations on Types of Activities

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

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

Deposit Insurance

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits held by individuals in the Chilean banking system. This guarantee covers obligations with a maximum value of UF120 per person (Ch$2,156,977 or U.S.$4,195 as of December 31, 2005) per calendar year.

Reserve Requirements

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

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

- deposits in checking accounts;

- other demand deposits or obligations payable on demand and incurred in the ordinary course of business;
- other deposits unconditionally payable immediately or within a term of less than 30 days; and
- time deposits payable within ten days;

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

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

Minimum Capital

Under the Chilean General Banking Law, a bank must have a minimum paid-in capital and reserves of UF800,000 (Ch$14,380 million or U.S.$28.0 million as of December 31, 2005). However, a bank may begin its operations with 50.0% of such amount, provided that it has an effective equity ratio (defined as effective equity as a percentage of risk-weighted assets) of not less than 12.0%. When such a bank's paid-in capital reaches UF600,000 (Ch$10,785 million or U.S.$21.0 million as of December 31, 2005) the effective equity ratio requirement is reduced to 10.0%.

Capital Adequacy Requirements

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

- a bank's paid-in capital and reserves, or net capital base;
- its subordinated bonds, considered at the issue price (but reduced 20.0% for each year during the period commencing six years prior to maturity), but not exceeding 50.0% of its net capital base; and
- its voluntary or additional allowances for loan losses, up to 1.25% of risk-weighted assets to the extent these voluntary or additional allowances exceed those that banks are required to maintain by law or regulation.

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

Market Risk Regulations

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

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

The new rules state that the risk of the trading book, the market risk exposure, plus 10% of the weighted assets by credit risk, may not be greater than a bank's effective equity. As of December 31, 2005, our market risk level amounted to approximately Ch$15 billion.

The following table shows our regulatory excess margin, or the difference between the regulatory limit applicable to us and our effective equity, as of December 31, 2005.

	At December 31, 2005 (in millions of constant Ch$ as of December 31, 2005)	
10% weighted asset by credit risk	Ch$	793,666
Market Risk Exposure		15,326
Total		808,992
Effective Equity		891,213
Regulatory Excess Margin	Ch$	82,221

Lending Limits

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

- a bank may not extend to any entity, individual or any one group of related entities, directly or indirectly, unsecured credit in an amount that exceeds 5.0% of the bank's effective equity, or in an amount that exceeds 25.0% of its effective equity if the excess over 5.0% is secured by certain assets with a value equal to or higher than such excess. In the case of foreign export trade financing, the 5.0% ceiling for unsecured credits is raised to 10.0% and the 25.0% ceiling for secured credits to 30.0%. In the case of financing infrastructure projects built through the concession mechanism, the 5.0% ceiling for unsecured credits is raised to 15.0% if secured by a pledge over the concession, or if granted by two or more banks or finance companies which have executed a credit agreement with the builder or holder of the concession;

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

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

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

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

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

Classification of Banks

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

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.

Models and Methods

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

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

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 as to compliance with required allowance levels. The opinion of the board of directors must be submitted in writing to the Chilean Superintendency of Banks and, if necessary, should state that additional allowances have been created as a result of the board's examination.

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

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

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

- consumer loans (including loans granted to individuals for financing the acquisition of consumer goods or payment of services);
- residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate in which the value of the property covers at least 100% of the amount of the loan);
- leasing operations (including consumer, commercial and residential leasing);
- factoring operations; and
- commercial loans (includes loans other than those described in the bullets above).

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

Models Based on the Individual Analysis of Borrowers

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

Borrowers with Normal Risk	
Categories A1, A2 and A3:	Borrowers with payment capacity sufficient to cover their loan obligations. They have no apparent credit risk and their payment capacity is not affected by unfavorable business, economic or financial situations.
Category B:	Borrowers with payment capacity sufficient to cover their loan obligations. While they present some risk, their payment capacity is not affected by unfavorable business, economic or financial situations.
Borrowers with Above Normal Risk	
Categories C1, C2, C3, C4, D1 or D2:	These borrowers have insufficient payment capacity to cover their loan obligations under normal circumstances.

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

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

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

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

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

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

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.

The concept of voluntary allowances has been eliminated by the amended regulations that have been in effect since January 1, 2004. See "—Selected Statistical Information— Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines—Allowances for Loan Losses under the Previous Guidelines—Voluntary Allowances for Loan Losses."

Obligations Denominated in Foreign Currencies

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

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

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

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its board of directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the board of directors is unable to do so, it must call a special shareholders' meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the 30-day period and in the manner agreed to at the meeting, or if the Chilean Superintendency of Banks does not approve the board of directors' proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the board of directors and from making any further investments in any instrument other than instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations or if a bank is under provisional administration of the Chilean Superintendency of Banks, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the directors of both banks, as well as by the Chilean Superintendency of Banks, but need not be submitted to the borrowing bank's shareholders for their approval. A creditor bank may not grant such interbank loans to an insolvent bank in an amount exceeding 25.0% of the creditor bank's effective equity. The board of directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, forgive debts or take other measures for the payment of the debts. If the board of directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of effective equity to risk-weighted assets to be no lower than 12.0%. If a bank fails to pay an obligation, it must notify the Chilean Superintendency of Banks, which shall determine if the bank is solvent.

Dissolution and Liquidation of Banks

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

Investments in Foreign Securities

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

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

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

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

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

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

Subject to specific conditions, a bank may grant loans in dollars to subsidiaries or branches of Chilean companies located abroad, to companies listed on foreign stock exchanges authorized by the Central Bank and, in general, to individuals and entities domiciled abroad, as long as the Central Bank is kept informed of such activities.

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

Prevention of Money Laundering and the Financing of Terrorism

On March 6, 2006, the Chilean Superintendency of Banks issued regulations governing the requirements applicable to banks with respect to prevention of money laundering and terrorism financing. The regulations are aimed at incorporating international anti-money laundering and terrorism financing laws to the Chilean banking industry. Pursuant to the regulations, the Chilean Superintendency of Banks requires that banks implement "know your customer" policies, which must be approved by its board of directors and must take into account the volume and complexity of its operations, as well as the operations of its affiliates and foreign branches and other related parties.

In general, such policies are aimed at:

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

- identifying what the Chilean Superintendency of Banks has defined as "persons politically exposed at the international level," or PEPs;

- regulating PEP account-opening procedures;

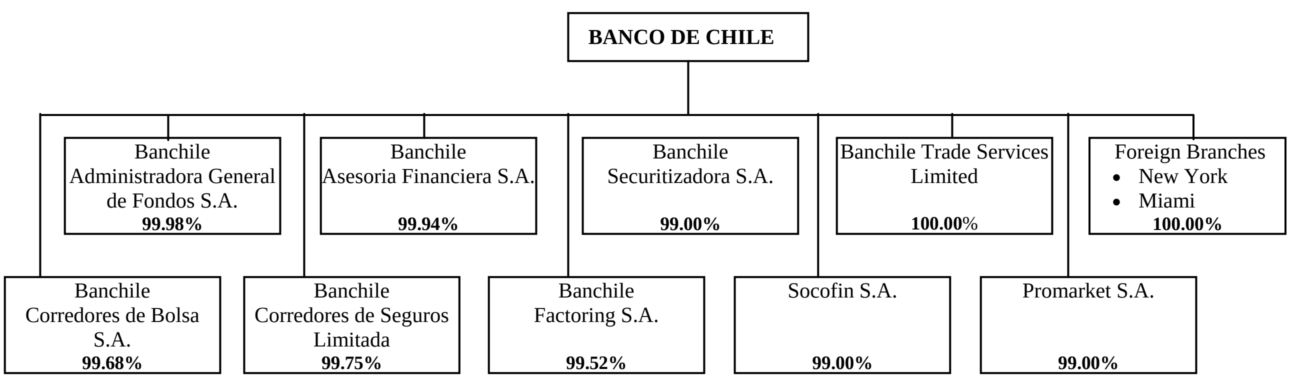
- regulating account-opening procedures generally, including requirements that persons opening accounts present valid government-issued identification, evidence of solvency, verification of address, etc.); and

- in the case of persons other than individuals, requiring copies of constituent documents, as well as identification of the owners, board members and officers, as well as a detailed explanation of line of business and other identifying data such as legal representatives, addresses and phone numbers.

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

ORGANIZATIONAL STRUCTURE

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



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

PROPERTY, PLANTS AND EQUIPMENT

We are domiciled in Chile and own the building located at Ahumada 251, Santiago, Chile that is approximately 65,000 square meters and serves as our executive offices and as the executive offices for most our subsidiaries. In addition, we own an approximately 15,000 square meter building located at Huerfanos 740, Santiago, Chile where the remainder of our executive offices are located. At December 31, 2005, we owned the properties on which 139 of our full-service branches are located (approximately 102,400 square meters of office space). We lease office space for our remaining 109 full-service branches, the New York and Miami branches, as well as for our representative offices. We also own properties throughout Chile for back office and administrative operations, as well as for storage of documents and other purposes. We believe that our facilities are adequate for our present needs and suitable for their intended purposes.

We also own approximately 140,000 square meters in mainly recreational physical facilities in Chile, which we use to assist our employees in maintaining a healthy work and life balance and which we use for incentive and integration activities.

SELECTED STATISTICAL INFORMATION

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

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

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

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

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

and

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

Where:

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

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

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

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

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

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

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

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

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

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

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

Due to the significant revaluation of the Chilean peso against the U.S. dollar in 2005 and 2004 (the published observed exchange rate was Ch$514.21 per U.S.$1.00 on December 31, 2005 as compared to Ch$559.83 and Ch$599.42 per U.S.$1.00 on December 31, 2004 and 2003, respectively), and the fact that nominal interest rates and the inflation rate were comparatively low in 2005 and 2004, most real interest rates on foreign currency assets and liabilities shown in the tables in "—Selected Statistical Information" are negative for 2005.

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

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

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

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

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

- 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.

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, 2003, 2004 and 2005:

	Year Ended December 31,											
	2003				2004				2005			
	Average balance	Interest earned	Average nominal rate	Average real rate	Average balance	Interest earned	Average nominal rate	Average real rate	Average balance	Interest earned	Average nominal rate	Average real rate
	(in millions of constant Ch$ as of December 31, 2005, except percentages)											
Assets												
Interest earning assets												
Interbank deposits												
Ch$	—	—	—	—	—	—	—	—	—	—	—	—
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	Ch$ 127,493	Ch$ 1,933	1.52	(15.49)	Ch$ 100,202	Ch$ 2,447	2.44	(6.59)	Ch$ 157,485	Ch$ 8,875	5.64	(6.40)
Total	127,493	1,933	1.52	(15.49)	100,202	2,447	2.44	(6.59)	157,485	8,875	5.64	(6.40)
Financial investments												
Ch$	828,873	29,407	3.55	2.45	1,023,918	27,224	2.66	0.22	712,226	24,661	3.46	(0.19)
UF	159,752	8,354	5.23	4.12	141,322	8,632	6.11	3.59	123,044	7,623	6.20	2.45
Foreign currency	900,674	(58,240)	—	—	735,004	5,007	0.68	(8.19)	600,168	23,334	3.89	(7.95)
Total	1,889,299	(20,479)	—	—	1,900,244	40,863	2.15	(2.78)	1,435,438	55,618	3.87	(3.21)
Commercial loans												
Ch$	1,196,480	111,876	9.35	8.19	1,285,503	85,575	6.66	4.13	1,497,762	98,235	6.56	2.80
UF	1,864,761	114,031	6.12	4.99	1,993,269	144,409	7.24	4.70	2,483,890	205,581	8.28	4.45
Foreign currency	297,566	16,391	5.51	(12.17)	229,439	4,901	2.14	(6.87)	285,896	9,788	3.42	(8.36)
Total	3,358,807	242,298	7.21	4.61	3,508,211	234,885	6.70	3.73	4,267,548	313,604	7.35	3.01
Consumer loans												
Ch$	419,219	86,091	20.54	19.26	631,811	122,825	19.44	16.61	745,754	146,254	19.61	15.39
UF	28,756	2,694	9.37	8.21	25,756	2,672	10.37	7.76	24,137	2,700	11.19	7.26
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Total	447,975	88,785	19.82	18.55	657,567	125,497	19.09	16.26	769,891	148,954	19.35	15.13
Interbank loans												
Ch$	57,842	1,336	2.31	1.23	32,475	589	1.81	(0.60)	38,272	1,347	3.52	(0.14)
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	31,060	603	1.94	(15.13)	14,325	260	1.82	(7.16)	1,514	76	5.02	(6.95)
Total	88,902	1,939	2.18	(4.49)	46,800	849	1.81	(2.61)	39,786	1,423	3.58	(0.39)
Leasing contracts												
Ch$	6,501	641	9.86	8.70	16,551	1,112	6.72	4.19	18,132	1,607	8.86	5.02
UF	221,310	22,289	10.07	8.91	261,082	26,935	10.32	7.70	334,681	36,998	11.05	7.13
Foreign currency	53,848	(4,965)	—	—	37,407	(160)	—	—	38,407	(1,344)	—	—
Total	281,659	17,965	6.38	7.20	315,040	27,887	8.85	6.60	391,220	37,261	9.52	6.34
Foreign trade loans												
Ch$	47,380	2,051	4.33	3.22	92,339	3,201	3.47	1.01	86,638	4,027	4.65	0.95
UF	13,443	107	0.80	(0.27)	20,919	499	2.39	(0.04)	22,037	880	3.99	0.32
Foreign currency	634,007	2,438	0.38	(16.43)	594,240	17,502	2.95	(6.13)	524,925	20,456	3.90	(7.94)
Total	694,830	4,596	0.66	(14.78)	707,498	21,202	3.00	(5.02)	633,600	25,363	4.00	(6.44)
Mortgage loans												
Ch$	—	—	—	—	—	—	—	—	—	—	—	—
UF	1,228,778	113,018	9.20	8.04	1,036,992	103,764	10.01	7.40	721,962	82,961	11.49	7.55
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Total	1,228,778	113,018	9.20	8.04	1,036,992	103,764	10.01	7.40	721,962	82,961	11.49	7.55
Contingent loans												
Ch$	47,307	1,644	3.48	3.48	61,876	1,807	2.92	2.92	81,586	1,683	2.06	2.06
UF	136,175	1,748	1.28	1.28	192,260	1,979	1.03	1.03	290,200	2,327	0.80	0.80
Foreign currency	235,780	72	0.03	0.03	239,711	79	0.03	0.03	242,939	339	0.14	0.14
Total	419,262	3,464	0.83	0.83	493,847	3,865	0.78	0.78	614,725	4,349	0.71	0.71
Past due loans												
Ch$	30,132	761	2.53	1.44	22,581	880	3.90	1.43	20,385	1,124	5.51	1.79
UF	103,742	959	0.92	(0.14)	74,655	816	1.09	(1.31)	59,167	617	1.04	(2.52)
Foreign currency	9,853	2	0.02	16.73)	5,289	(22)	—	—	2,205	—	—	—
Total	143,727	1,722	1.20	(0.95)	102,525	1,674	1.63	(0.63)	81,757	1,741	2.13	(1.38)
Total interest earning assets												
Ch$	2,633,734	233,807	8.88	7.72	3,167,054	243,213	7.68	5.12	3,200,755	278,938	8.71	4.88
UF	3,756,717	263,200	7.01	5.87	3,746,255	289,706	7.73	5.18	4,059,118	339,687	8.37	4.54
Foreign currency	2,290,281	(41,766)	—	—	1,955,617	30,014	1.53	(7.42)	1,853,539	61,524	3.32	(8.45)
Total	Ch$ 8,680,732	Ch$ 455,241	5.24%	4.89%	Ch$ 8,868,926	Ch$ 562,933	6.35%	2.38%	Ch$ 9,113,412	Ch$ 680,149	7.46%	2.02%

	Year Ended December 31,											
	2003				2004				2005			
	Average balance	Interest earned	Average nominal rate	Average real rate	Average balance	Interest earned	Average nominal rate	Average real rate	Average balance	Interest earned	Average nominal rate	Average real rate
	(in millions of constant Ch$ as of December 31, 2005, except percentages)											
Assets												
Non–interest earning assets												
Cash and due from banks												
Ch$	Ch$ 561,777	—	—	—	Ch$ 536,436	—	—	—	Ch$ 511,576	—	—	—
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	119,824	—	—	—	152,382	—	—	—	259,398	—	—	—
Total	681,601	—	—	—	688,818	—	—	—	770,974	—	—	—
Allowances for loan losses												
Ch$	(203,710)	—	—	—	(169,733)	—	—	—	(138,976)	—	—	—
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	(4,087)	—	—	—	(2,025)	—	—	—	(1,462)	—	—	—
Total	(207,797)	—	—	—	(171,758)	—	—	—	(140,438)	—	—	—
Fixed assets												
Ch$	140,823	—	—	—	132,681	—	—	—	135,487	—	—	—
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	1,488	—	—	—	841	—	—	—	1,649	—	—	—
Total	142,311	—	—	—	133,522	—	—	—	137,136	—	—	—
Other assets												
Ch$	225,708	—	—	—	317,965	—	—	—	338,691	—	—	—
UF	1,290	—	—	—	1,273	—	—	—	1,356	—	—	—
Foreign currency	69,225	—	—	—	108,125	—	—	—	104,386	—	—	—
Total	296,223	—	—	—	427,363	—	—	—	444,433	—	—	—
Total non–interest earning assets												
Ch$	724,598	—	—	—	817,349	—	—	—	846,778	—	—	—
UF	1,290	—	—	—	1,273	—	—	—	1,356	—	—	—
Foreign currency	186,450	—	—	—	259,323	—	—	—	363,971	—	—	—
Total	912,338	—	—	—	1,077,945	—	—	—	1,212,105	—	—	—
Total assets												
Ch$	Ch$ 3,358,332	Ch$ 233,807	—	—	Ch$ 3,984,403	Ch$ 243,213	—	—	Ch$ 4,047,533	Ch$ 278,938	—	—
UF	3,758,007	263,200	—	—	3,747,528	289,706	—	—	4,060,474	339,687	—	—
Foreign currency	2,476,731	(41,766)	—	—	2,214,940	30,014	—	—	2,217,510	61,524	—	—
Total	Ch$ 9,593,070	Ch$ 455,241	—	—	Ch$ 9,946,871	Ch$ 562,933	—	—	Ch$ 10,325,517	Ch$ 680,149	—	—

	Year Ended December 31,											
	2003				2004				2005			
	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, 2005, except percentages)											
Liabilities												
Interest bearing liabilities												
Interest bearing demand deposits												
Ch$	—	—	—	—	—	—	—	—	—	—	—	—
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Total	—	—	—	—	—	—	—	—	—	—	—	—
Savings accounts												
Ch$	—	—	—	—	—	—	—	—	—	—	—	—
UF	Ch$ 183,3	Ch$ 3,094	1.69	0.61	Ch$ 152,0	Ch$ 3,3	2.22	(0.21)	Ch$ 139,267	Ch$ 5,350	3.84	0.18
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Total	183,338	3,094	1.69	0.61	152,062	3,373	2.22	(0.21)	139,267	5,350	3.84	0.18
Time deposits												
Ch$	1,856,616	65,576	3.53	2.44	1,974,154	46,570	2.36	(0.07)	2,194,900	88,141	4.02	0.34
UF	827,634	19,941	2.41	1.33	735,824	27,167	3.69	1.23	1,038,348	58,410	5.63	1.90
Foreign currency	852,603	3,599	0.42	(16.40)	880,835	14,981	1.70	(7.26)	700,873	21,467	3.06	(8.68)
Total	3,536,853	89,116	2.52	(2.36)	3,590,813	88,718	2.47	(1.57)	3,934,121	168,018	4.27	(0.85)
Central Bank borrowings												
Ch$	8,852	229	2.59	1.50	10,427	215	2.06	(0.36)	30,230	953	3.15	(0.49)
UF	3,515	208	5.92	4.80	2,405	153	6.36	3.84	1,592	95	5.97	2.23
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Total	12,367	437	3.53	2.44	12,832	368	2.87	0.43	31,822	1,048	3.29	(0.35)
Repurchase agreements												
Ch$	226,366	5,451	2.41	1.32	340,738	4,144	1.22	(1.19)	195,809	5,391	2.75	(0.87)
UF	26,311	4	0.02	(1.04)	827	—	—	—	1,261	1	0.08	(3.45)
Foreign currency	119,996	3,779	3.15	(14.13)	98,561	3,948	4.01	(5.16)	101,477	4,499	4.43	(7.46)
Total	372,673	9,234	2.48	(3.82)	440,126	8,092	1.84	(2.07)	298,547	9,891	3.31	(3.13)
Mortgage finance bonds												
Ch$	—	—	—	—	—	—	—	—	—	—	—	—
UF	1,089,265	80,407	7.38	6.24	946,971	77,411	8.17	5.61	616,794	50,553	8.20	4.38
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Total	1,089,265	80,407	7.38	6.24	946,971	77,411	8.17	5.61	616,794	50,553	8.20	4.38
Other interest bearing liabilities(1)												
Ch$	105,358	10,013	9.50	8.34	129,988	2,180	1.68	(0.74)	166,123	2,884	1.74	(1.86)
UF	310,932	23,684	7.62	6.48	337,243	31,911	9.46	6.87	535,715	53,569	10.00	6.12
Foreign currency	722,195	891	0.12	(16.65)	697,056	10,583	1.52	(7.43)	759,488	19,038	2.51	(9.17)
Total	1,138,485	34,588	3.04	(8.02)	1,164,287	44,674	3.84	(2.54)	1,461,326	75,491	5.17	(2.74)
Total interest bearing liabilities												
Ch$	2,197,192	81,269	3.70	2.60	2,455,307	53,109	2.16	(0.26)	2,587,062	97,369	3.76	0.10
UF	2,440,995	127,338	5.22	4.10	2,175,332	140,015	6.44	3.91	2,332,977	167,978	7.20	3.42
Foreign currency	1,694,794	8,269	0.49	(16.34)	1,676,452	29,512	1.76	(7.21)	1,561,838	45,004	2.88	(8.84)
Total	Ch$ 6,3	Ch$ 216,876	3.42%	(1.89)%	Ch$ 6,3	Ch$ 222,636	3.53%	(0.67)%	Ch$ 6,481,877	Ch$ 310,351	4.79%	(0.86)%

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

	Year Ended December 31,											
	2003				2004				2005			
	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, 2005, except percentages)											
Liabilities												
Non–interest bearing liabilities												
Non–interest bearing demand deposits												
Ch$	Ch$ 1,4	—	—	—	Ch$ 1,574,106	—	—	—	Ch$ 1,672,191	—	—	—
UF	12,157	—	—	—	37,249	—	—	—	13,500	—	—	—
Foreign currency	484,281	—	—	—	552,340	—	—	—	500,135	—	—	—
Total	1,941,079	—	—	—	2,163,695	—	—	—	2,185,826	—	—	—
Contingent liabilities												
Ch$	47,176	—	—	—	61,641	—	—	—	81,427	—	—	—
UF	135,742	—	—	—	191,943	—	—	—	289,737	—	—	—
Foreign currency	236,335	—	—	—	241,988	—	—	—	245,211	—	—	—
Total	419,253	—	—	—	495,572	—	—	—	616,375	—	—	—
Other non–interest bearing			—	—			—	—			—	—
Ch$	114,085	—	—	—	200,719	—	—	—	237,192	—	—	—
UF	3,949	—	—	—	4,990	—	—	—	6,939	—	—	—
Foreign currency	88,955	—	—	—	103,554	—	—	—	119,530	—	—	—
Total	206,989	—	—	—	309,263	—	—	—	363,661	—	—	—
Shareholders' equity												
Ch$	692,768	—	—	—	671,250	—	—	—	677,778	—	—	—
UF	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—	—	—	—	—	—	—
Total	692,768	—	—	—	671,250	—	—	—	677,778	—	—	—
Total non–interest bearing liabilities and shareholders' equity												
Ch$	2,298,670	—	—	—	2,507,716	—	—	—	2,668,588	—	—	—
UF	151,848	—	—	—	234,182	—	—	—	310,176	—	—	—
Foreign currency	809,571	—	—	—	897,882	—	—	—	864,876	—	—	—
Total	3,260,089	—	—	—	3,639,780	—	—	—	3,843,640	—	—	—
Total liabilities and shareholders' equity												
Ch$	4,495,862	81,269	—	—	4,963,023	53,109	—	—	5,255,650	97,369	—	—
UF	2,592,843	127,338	—	—	2,409,514	140,015	—	—	2,643,153	167,978	—	—
Foreign currency	2,504,365	8,269	—	—	2,574,334	29,512	—	—	2,426,714	45,004	—	—
Total	Ch$ 9,593,070	Ch$ 216,876	—	—	Ch$ 9,946,871	Ch$222,636	—	—	Ch$ 10,325,517	Ch$310,351	—	—

Interest Earning Assets and Net Interest Margin

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

	Year Ended December 31,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)					
Total average interest earning assets						
Ch$	Ch$	2,633,734	Ch$	3,167,054	Ch$	3,200,755
UF		3,756,717		3,746,255		4,059,118
Foreign currency		2,290,281		1,955,617		1,853,539
Total		8,680,732		8,868,926		9,113,412
Net interest earned(1)						
Ch$		152,538		190,104		181,569
UF		135,862		149,691		171,709
Foreign currency		(50,035)		502		16,520
Total	Ch$	238,365	Ch$	340,297	Ch$	369,798
Net interest margin, nominal basis(2)						
Ch$		5.79%		6.00%		5.67%
UF		3.62		4.00		4.23
Foreign currency		(2.18)		0.03		0.89
Total		2.75%		3.84%		4.06%

(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 2004 and 2005 and between 2003 and 2004 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.

	Increase (Decrease) from 2003 to 2004 due to changes in		Net change from	Increase (Decrease) from 2004 to 2005 due to changes in		Net change from
	Volume	Rate	2003 to 2004	Volume	Rate	2004 to 2005
	(in millions of constant Ch$ as of December 31, 2005)					
Assets						
Interest earning assets						
Interbank deposits						
Ch$	—	—	—	—	—	—
UF	—	—	—	—	—	—
Foreign currency	Ch$ (479)	Ch$ 993	Ch$ 514	Ch$ 1,955	Ch$ 4,473	Ch$ 6,428
Total	(479)	993	514	1,955	4,473	6,428
Financial investments						
Ch$	6,080	(8,263)	(2,183)	(9,544)	6,981	(2,563)
UF	(1,030)	1,308	278	(1,131)	122	(1,009)
Foreign currency	—	63,247	63,247	(1,081)	19,408	18,327
Total	5,050	56,292	61,342	(11,756)	26,511	14,755
Commercial loans						
Ch$	7,832	(34,133)	(26,301)	13,939	(1,279)	12,660
UF	8,253	22,125	30,378	38,751	22,421	61,172
Foreign currency	(3,127)	(8,363)	(11,490)	1,417	3,470	4,887
Total	12,958	(20,371)	(7,413)	54,107	24,612	78,719
Consumer loans						
Ch$	41,550	(4,816)	36,734	22,337	1,092	23,429
UF	(296)	274	(22)	(174)	202	28
Foreign currency	—	—	—	—	—	—
Total	41,254	(4,542)	36,712	22,163	1,294	23,457
Interbank loans						
Ch$	(501)	(246)	(747)	121	637	758
UF	—	—	—	—	—	—
Foreign currency	(306)	(37)	(343)	(371)	187	(184)
Total	(807)	(283)	(1,090)	(250)	824	574
Leasing contracts						
Ch$	729	(258)	471	114	381	495
UF	4,092	554	4,646	8,026	2,037	10,063
Foreign currency	—	4,805	4,805	—	(1,184)	(1,184)
Total	4,821	5,101	9,922	8,140	1,234	9,374
Foreign trade loans						
Ch$	1,626	(476)	1,150	(208)	1,034	826
UF	85	307	392	28	353	381
Foreign currency	(162)	15,226	15,064	(2,216)	5,170	2,954
Total	1,549	15,057	16,606	(2,396)	6,557	4,161
Mortgage loans						
Ch$	—	—	—	—	—	—
UF	(18,632)	9,378	(9,254)	(34,665)	13,862	(20,803)
Foreign currency	—	—	—	—	—	—
Total	(18,632)	9,378	(9,254)	(34,665)	13,862	(20,803)
Contingent loans						
Ch$	453	(290)	163	488	(612)	(124)
UF	624	(393)	231	853	(505)	348
Foreign currency	1	6	7	1	259	260
Total	1,078	(677)	401	1,342	(858)	484
Past due loans						
Ch$	(223)	342	119	(92)	336	244
UF	(299)	156	(143)	(163)	(36)	(199)
Foreign currency	(1)	(23)	(24)	—	22	22
Total	(523)	475	(48)	(255)	322	67
Total interest earning assets						
Ch$	57,546	(48,140)	9,406	27,155	8,570	35,725
UF	(7,203)	33,709	26,506	11,525	38,456	49,981
Foreign currency	(4,074)	75,854	71,780	(295)	31,805	31,510
Total	Ch$ 46,269	Ch$ 61,423	Ch$ 107,692	Ch$ 38,385	Ch$ 78,8	Ch$ 117,216

	Increase (Decrease) from 2003 to 2004 due to changes in		Net change from 2003 to 2004	Increase (Decrease) from 2004 to 2005 due to changes in		Net change from 2004 to 2005
	Volume	Rate		Volume	Rate	
	(in millions of constant Ch$ as of December 31, 2005)					
Liabilities						
Interest bearing liabilities						
Interest bearing demand deposits						
Ch$	—	—	—	—	—	—
UF	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—
Total	—	—	—	—	—	—
Savings accounts						
Ch$	—	—	—	—	—	—
UF	Ch$ (586)	Ch$ 865	Ch$ 279	Ch$ (305)	Ch$ 2,282	Ch$ 1,977
Foreign currency	—	—	—	—	—	—
Total	(586)	865	279	(305)	2,282	1,977
Time deposits						
Ch$	3,931	(22,937)	(19,006)	5,710	35,861	41,571
UF	(2,415)	9,641	7,226	13,742	17,501	31,243
Foreign currency	123	11,259	11,382	(3,559)	10,045	6,486
Total	1,639	(2,037)	(398)	15,893	63,407	79,300
Central Bank borrowings						
Ch$	37	(51)	(14)	577	161	738
UF	(70)	15	(55)	(49)	(9)	(58)
Foreign currency	—	—	—	—	—	—
Total	(33)	(36)	(69)	528	152	680
Repurchase agreements						
Ch$	2,066	(3,373)	(1,307)	(2,324)	3,571	1,247
UF	(2)	(2)	(4)	—	1	1
Foreign currency	(748)	917	169	120	431	551
Total	1,316	(2,458)	(1,142)	(2,204)	4,003	1,799
Mortgage finance bonds						
Ch$	—	—	—	—	—	—
UF	(11,123)	8,127	(2,996)	(27,061)	203	(26,858)
Foreign currency	—	—	—	—	—	—
Total	(11,123)	8,127	(2,996)	(27,061)	203	(26,858)
Other interest bearing liabilities						
Ch$	1,915	(9,748)	(7,833)	625	79	704
UF	2,130	6,097	8,227	19,752	1,906	21,658
Foreign currency	(32)	9,724	9,692	1,022	7,433	8,455
Total	4,013	6,073	10,086	21,399	9,418	30,817
Total interest bearing liabilities						
Ch$	7,949	(36,109)	(28,160)	4,588	39,672	44,260
UF	(12,066)	24,743	12,677	6,079	21,884	27,963
Foreign currency	(657)	21,900	21,243	(2,417)	17,909	15,492
Total	Ch$ (4,774)	Ch$ 10,534	Ch$ 5,760	Ch$ 8,250	Ch$ 79,465	Ch$ 87,715

Investment Portfolio

The following table sets forth our investment in Chilean government and corporate securities and certain other financial investments as of December 31, 2003, 2004 and 2005. Financial investments traded on a secondary market are shown adjusted to market value, following specific instructions from the Chilean Superintendency of Banks. These instructions provide for the recognition of such adjustments against income except in the case of a permanent portfolio, where an equity account, "Unrealized gains (losses) on permanent financial investments," may be directly adjusted, subject to certain restrictions.

	December 31,			Weighted Average Nominal Rate
	2003	**2004**	**2005**	**at December 31, 2005**
	(in millions of constant Ch$ as of December 31, 2005, except for rate data)			
Central Bank and Government Securities				
Central Bank debt securities	Ch$ 1,028,345	Ch$ 936,268	Ch$ 592,531	3.34%
Chilean government securities	44,438	10,280	19,007	5.66
Investments purchased under agreements to resell	31,496	27,257	46,695	4.32
Investments collateral under agreements to repurchase	344,667	176,101	90,011	4.34
Subtotal	1,448,946	1,149,906	748,244	3.58
Corporate Securities and Other Financial Investments				
Investments in Chilean financial institutions	140,113	44,758	74,189	4.21
Foreign government notes	35,693	29,317	37,357	2.97
Investments in foreign countries	198,107	142,231	315,578	4.21
Other financial investments	112,949	115,344	120,432	6.23
Investments collateral under agreements to repurchase	99,136	183,580	154,209	5.55
Subtotal	585,998	515,230	701,765	4.79
Total	Ch$ 2,034,944	Ch$ 1,665,136	Ch$ 1,450,009	4.16%

At December 31, 2005, financial instruments issued by the Central Bank were the only financial instruments we held whose aggregate book value exceeded 10% of our shareholders' equity. These financial instruments are accounted for in the audited consolidated financial statements at market value. See Note 1(f) to our audited consolidated financial statements. The value of such investments at December 31, 2005 is as follows:

Issuer	Carrying Value	Market Value
	(in millions of constant Ch$ as of December 31, 2005)	
Central Bank	Ch$ 729,237	Ch$ 729,237

The following table sets forth an analysis of our investments at December 31, 2005, by time remaining to maturity and the weighted average nominal rates of such investments:

	Within one year(1)	Rate	After one year but within five years	Rate	After five years	Rate	Total	Rate
	(in millions of constant Ch$ as of December 31, 2005, except for rate data)							
Central Bank and Government Securities								
Central Bank debt securities	Ch$ 592,531	3.34%	—	—	—	—	Ch$ 592,531	3.34%
Chilean government securities	19,007	5.66	—	—	—	—	19,007	5.66
Investments purchased under agreements to resell	46,695	4.32	—	—	—	—	46,695	4.32
Investments collateral under agreements to repurchase	90,011	4.34	—	—	—	—	90,011	4.34
Subtotal	748,244	3.58	—	—	—	—	748,244	3.58
Corporate Securities and Other Financial Investments								
Investments in Chilean financial institutions	74,189	4.21	—	—	—	—	74,189	4.21
Foreign government notes	37,357	2.97	—	—	—	—	37,357	2.97
Investments in foreign countries	315,578	4.21	—	—	—	—	315,578	4.21
Other financial investments	120,432	6.23	—	—	—	—	120,432	6.23
Investments collateral under agreements to repurchase	154,209	5.55	—	—	—	—	154,209	5.55
Subtotal	701,765	4.79	—	—	—	—	701,765	4.79
Total	Ch$1,450,009	4.16%	—	—	—	—	Ch$1,450,009	4.16%

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

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

Instruments	As of December 31, 2003			2004			2005		
	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value	Carrying Value	Unrealized Gains (Losses)	Estimated Fair Value
	(in millions of constant Ch$ as of December 31, 2005)								
U.S. government debt securities........	Ch$ 22,3	Ch$ 4	Ch$ 22,322	Ch$ 17,424	Ch$ (2)	Ch$17,422	Ch$ 15,3	Ch$ (1)	Ch$ 15,363
Total	Ch$ 22,3	Ch$ 4	Ch$ 22,322	Ch$ 17,424	Ch$ (2)	Ch$17,422	Ch$ 15,3	Ch$ (1)	Ch$ 15,363

Loan Portfolio

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

	December 31, 2001	2002	2003	2004	2005
	(in millions of constant Ch$ as of December 31, 2005)				
Commercial loans:					
General commercial loans	Ch$ 1,	Ch$ 2,8	Ch$ 2,8	Ch$ 2,	Ch$ 3,510,902
Foreign trade loans	416,608	656,029	699,028	620,617	550,770
Interbank loans	26,227	58,793	14,042	15,745	25,012
Leasing contracts	184,657	267,157	285,604	356,232	454,805
Other outstanding loans....................	353,686	415,365	468,290	969,947	1,335,021
Subtotal commercial loans	2,769,624	4,206,492	4,272,637	4,933,051	5,876,510
Mortgage loans:					
Residential	459,714	622,884	641,493	459,813	367,962
Commercial......................................	432,816	650,487	556,362	389,585	302,385
Subtotal mortgage loans...............	892,530	1,273,371	1,197,855	849,398	670,347
Consumer loans	230,034	563,598	625,125	716,758	864,144
Past due loans:					
Commercial loans	42,020	138,507	96,153	70,197	53,291
Residential mortgage loans..............	6,962	10,988	11,873	13,059	13,863
Consumer loans	3,017	4,879	3,578	3,826	3,870
Leasing contracts	486	1,074	430	652	325
Subtotal past due loans.................	52,485	155,448	112,034	87,734	71,349
Contingent loans...................................	318,144	409,452	434,967	550,013	723,574
Total loans	Ch$ 4,	Ch$ 6,	Ch$ 6,642,618	Ch$ 7,	Ch$ 8,205,924

The loan categories are as follows:

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

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

Mortgage loans are inflation indexed, fixed rate, long-term loans with monthly payments of principal and interest collateralized by a real property mortgage. These loans are financed through the issuance of mortgage finance bonds. At the time of its issuance, the amount of a mortgage loan cannot be more than 75% of the value of the property.

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

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

Other outstanding loans principally include bills of exchange, other mortgage loans that are financed by our general borrowings and factoring.

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

Contingent loans consist of open and unused letters of credit together with guarantees granted by us in Chilean pesos, UF and foreign currencies (principally U.S. dollars). Unlike U.S. GAAP, Chilean GAAP requires such loans to be included on a bank's balance sheet. See Note 28 to our consolidated audited financial statements for a description of the significant differences between Chilean GAAP and U.S. GAAP as they relate to our consolidated subsidiaries and us.

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

Maturity and Interest Rate Sensitivity of Loans as of December 31, 2005

The following table sets forth an analysis by type and time remaining to maturity of our loans at December 31, 2005:

	Balance as of December 31, 2005	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, 2005)				
Commercial loans	Ch$3,510,902	Ch$497,795	Ch$839,212	Ch$327,955	Ch$643,949	Ch$434,879	Ch$767,112
Consumer loans	864,144	291,260	127,168	116,442	268,920	54,496	5,858
Mortgage loans	670,347	7,453	28,621	34,296	132,748	124,000	343,229
Foreign trade loans	550,770	97,416	336,394	72,587	19,510	15,452	9,411
Interbank loans	25,012	25,012	—	—	—	—	—
Leasing contracts	454,805	19,652	50,754	55,941	164,522	80,299	83,637
Other outstanding loans	1,335,021	214,011	117,293	36,72[illegible]	141,3[illegible]	131,24[illegible]	694,438
Past due loans	71,349	71,349	—	—	—	—	—
Subtotal	7,482,350	1,223,948	1,499,442	643,950	1,370,951	840,374	1,903,685
Contingent loans	723,574	141,533	240,461	163,433	153,073	21,957	3,117
Total loans	Ch$ 8,205,924	Ch$ 1,365,481	Ch$ 1,739,903	Ch$ 807,[illegible]	Ch$ 1,524,024	Ch$ 862,331	Ch$ 1,906,802

The following table presents the interest rate sensitivity of our outstanding loans due after one year as of December 31, 2005, not including contingent loans:

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005)
Variable rate	
Ch$	Ch$ 102,775
UF	1,320,009
Foreign currency	110,550
Total	1,533,334
Fixed rate	
Ch$	607,766
UF	1,930,199
Foreign currency	43,711
Total	2,581,676
Total	Ch$ 4,115,010

Loans by Economic Activity

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

	As of December 31,					
	2003		2004		2005	
	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio	Loan Portfolio	% of loan Portfolio
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)					
Agriculture, Livestock, Forestry, Agribusiness, Fishing:						
Agriculture and livestock	Ch$ 218,492	3.52%	Ch$217,896	3.31%	Ch$162,983	2.18%
Fruit	169,098	2.72	174,2	2.65	171,904	2.30
Forestry and wood extraction	18,603	0.30	20,0	0.30	21,865	0.29
Fishing	97,092	1.57	104,910	1.59	53,294	0.71
Subtotal	503,285	8.11	517,1	7.85	410,046	5.48
Mining and Petroleum:						
Mining and quarries	113,020	1.82	25,9	0.39	29,698	0.40
Natural gas and crude oil extraction	14,441	0.23	8,6	0.13	34,900	0.47
Subtotal	127,461	2.05	34,6	0.52	64,598	0.87
Manufacturing:						
Tobacco, food and beverages	169,080	2.72	142,647	2.16	129,360	1.73
Textiles, clothing and leather goods	71,220	1.15	70,216	1.06	68,472	0.92
Wood and wood products	64,786	1.04	48,782	0.74	54,956	0.73
Paper, printing and publishing	18,421	0.30	25,096	0.38	40,064	0.54
Oil refining, carbon and rubber	72,369	1.17	85,325	1.29	96,324	1.29
Production of basic metal, non-mineral, machine and equipment	176,353	2.84	250,715	3.81	214,950	2.87
Other manufacturing industries	77,135	1.24	49,182	0.75	61,204	0.82
Subtotal	649,364	10.46	671,963	10.19	665,330	8.90
Electricity, Gas and Water:						
Electricity, gas and water	76,535	1.23	60,363	0.92	66,827	0.89
Subtotal	76,535	1.23	60,363	0.92	66,827	0.89
Construction:						
Residential buildings	147,130	2.37	170,799	2.59	212,755	2.84
Other constructions	356,993	5.75	339,582	5.16	450,942	6.03
Subtotal	504,123	8.12	510,381	7.75	663,697	8.87
Commerce:						
Wholesale	303,990	4.90	274,619	4.17	294,425	3.93
Retail, restaurants and hotels	447,407	7.21	503,806	7.65	435,472	5.82
Subtotal	751,397	12.11	778,425	11.82	729,897	9.75
Transport, Storage and Communications:						
Transport and storage	133,893	2.16	165,165	2.51	178,529	2.39
Communications	42,915	0.69	36,063	0.55	23,806	0.32
Subtotal	176,808	2.85	201,228	3.06	202,335	2.71
Financial Services:						
Financial insurance and companies	559,972	9.02	623,481	9.47	757,009	10.11
Real estate and other financial services	608,938	9.81	688,789	10.46	681,828	9.11
Subtotal	1,168,910	18.83	1,312,270	19.93	1,438,837	19.22
Community, Social and Personal Services:						
Community, social and personal services	293,542	4.72	267,262	4.06	1,024,188	13.69
Subtotal	293,542	4.72	267,262	4.06	1,024,188	13.69
Consumer Loans	775,303	12.49	909,816	13.81	870,276	11.63
Residential Mortgage Loans	1,180,923	19.03	1,323,522	20.09	1,346,319	17.99
Total	Ch$6,207,651	100.00%	Ch$6,586,94 1	100.00%	Ch$ 7,482,350	100.00%

Foreign Country Outstanding Loans

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

	As of December 31,		
	2003	**2004**	**2005**
	(in millions of constant Ch$ as of December 31, 2005)		
Argentina	Ch$ 12,056	Ch$ 6,415	Ch$ 1,308
Australia	—	9	327
Austria	330	160	4,396
Belgium	406	415	730
Bolivia	6	—	—
Brazil	47,304	54,568	60,051
British West Indies	11,518	7,511	4,452
Canada	670	440	1,233
China	9,512	23,594	24,204
Colombia	2,747	5,632	303
Denmark	23	6	15
Ecuador	326	171	6
El Salvador	37	2,486	44
Finland	1,188	4,170	2,414
France	18,118	14,312	5,404
Germany	3,992	4,836	710
Holland	139	153	—
Hong Kong	1,588	239	58
India	4,940	2,637	536
Ireland	—	—	2,929
Israel	—	1	69
Italy	995	3,723	1,892
Japan.	13,416	11,317	3,450
Malaysia	19	—	—
Mauricio	—	13	—
Mexico	39,504	29,632	11,085
Monaco	32	—	—
Morocco	44	33	—
Netherlands	4,563	—	—
New Zealand	134	3	65
Norway	1,172	12	3
Panama	6,463	4,717	721
Peru	8,287	17,093	5,962
Portugal	115	537	476
Singapore	41	53	972
Slovenia	59	—	—
South Africa	45	—	10
South Korea	1,238	17,086	7,112
Spain	6,578	5,649	6
Switzerland	586	99	—
Sweden	1,576	1,579	—
Taiwan	112	2,102	4,059
United Arab Emirates	549	631	465
United Kingdom	2,789	40,967	31,406
United States	16,585	25,679	17,682
Uruguay	3,223	—	—
Venezuela	6,395	5,837	5,191
Total	Ch$ 229,420	Ch$ 294,517	Ch$ 199,746

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

	December 31,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)					
Australia	Ch$	47	Ch$	58	Ch$	23
Austria		66		2		39
Belgium		215		112		85
Canada		390		261		309
China		172		175		62
Denmark		536		67		23
Finland		8		11		14
France		213		438		491
Germany		4,519		4,358		3,712
Italy		1,554		2,169		11,970
Japan		898		1,244		1,445
Netherlands		251		154		58
Norway		32		52		33
Spain		189		182		312
Sweden		89		3		31
Switzerland		208		212		168
United Kingdom		461		719		903
United States		92,320		119,736		32,759
Total	Ch$	102,168	Ch$	129,953	Ch$	52,437

Credit Review Process

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

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

Transactions in which the total customer credit risk is more than UF 150,000 (approximately Ch$2,696 million) require the approval of a credit committee, which includes three directors and our chief executive officer. Transactions in which the total customer credit risk is equal to or less than UF 150,000 may be approved by other executives, depending on the amount involved, as follows:

Approved by	Limit in UF
Credit committee including members of the board of directors	up to legal limits
Chief executive officer and chairman	up to UF 250,000
Chief executive officer	up to UF 150,000
Senior credit risk officer	up to UF 150,000
Executive credit risk officers	up to UF 75,000
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 area extending the credit must review the terms of the loan, the interest rate and any security to be obtained.

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

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

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

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

Classification of Loan Portfolio under the Previous Guidelines

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

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

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

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

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

- the commercial loans outstanding to our 400 largest debtors; or

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

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

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

Category A: A borrower's loans were Category "A" if we had no doubt as to the borrower's ability to repay the loans in a timely manner, except to the extent reflected in the loan's original terms, including all interest due, and the revenues generated from the business of the borrower are sufficient to service the debt. If the borrower's business did not generate the revenues needed for debt service, or if repayment depended on revenues generated by another entity, its loans were not included in this category, even if fully secured.

Category B: This category included loans outstanding to borrowers who had shown some degree of non-compliance with their obligations under the original conditions of their loans, but whose past financial records and market history indicated that such non-compliance should be temporary and, in any case, should not significantly affect the terms for repayment. This category also included loans to customers involved in economic activities that represented a higher risk for us. Category "B" was also the highest category for loans outstanding to borrowers whose source of repayment depended on revenues generated by another entity, and loans outstanding to borrowers whose business did not generate the revenues needed for debt service, but only if the loans were fully secured.

Category B-: Loans included in this category were principally loans outstanding to borrowers who were experiencing financial difficulties and whose operational revenues or liquid assets were insufficient to service the loans and where the security for the loan covered 61% to 95% of the outstanding amount. Also included in this category were loans outstanding to borrowers whose financial history was insufficient or difficult to establish. Loans bearing interest rates that, due to our cost of funds, generate a financial loss of between 5% and 39% of the outstanding amount were also included in this category. Our internal guidelines prohibited us from categorizing as better than B- any loan to a customer for which the loan was currently subject to legal collection proceedings even if the customer's loan was more than fully secured.

Category C: This category included loans outstanding to borrowers who were experiencing serious financial difficulties and whose operational revenues or liquid assets were insufficient to service the loans and where the security for the loan would cover 21% to 60% of the outstanding amount. Loans bearing interest rates that, due to our cost of funds, generate a financial loss of between 40% and 79% of the outstanding amount were also included in this category. We expected to suffer some degree of loss with respect to loans to borrowers in this category.

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

Allowances for Loan Losses under the Previous Guidelines

The Chilean Superintendency of Banks amended its regulations with respect to allowances effective January 1, 2004. Under the previous guidelines, the minimum required allowances for loan losses was the greater of (1) a bank's global allowances for loan losses and (2) its aggregate individual allowances for loan losses. Additionally, a bank was permitted to maintain voluntary allowances in excess of the required minimum so as to provide additional coverage for potential loan losses. We historically followed the practice of maintaining voluntary allowances.

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

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

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

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

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

Consolidated Risk Index At December 31,	
2001	2.42%
2002	3.00
2003	2.36
2004(1)	2.23
2005(1)	1.72%

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

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

Unconsolidated Risk Index At December 31,	
2001	2.48%
2002	3.10
2003	2.41
2004(1)	2.23
2005(1)	1.70%

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

According to the Chilean Superintendency of Banks, the average risk index of all financial institutions in Chile, both foreign and domestic, was 1.61% as of December 31, 2005. At the same date, our average unconsolidated risk index was 1.70%. Our average unconsolidated risk index has continued to improve since 2002 when it was highest as a result of our merger with Banco de A. Edwards in that year. As of December 31, 2004, our unconsolidated risk index was greater than the average for all financial institutions in Chile primarily as a result of higher additional allowances maintained by us as compared to those maintained by the financial system.

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

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

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

	As of December 31,									
	2001		2002		2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)									
Allowances based on risk index	Ch$	103,160	Ch$	198,251	Ch$	156,766	Ch$	159,318	Ch$	141,305
Allowances based on 0.75%		31,971		49,563		49,820				
Global allowances for loan losses		92,028		153,446		131,686				
Individual allowances for loan losses		17,216		56,237		37,043		—		—
Required minimum allowances		109,244		209,683		168,729		138,896		120,309
Voluntary allowances		37,040		22,048		21,830		—		—
Additional allowances		—		—		—		20,422		20,996
Total allowances for loan losses	Ch$	146,284	Ch$	231,731	Ch$	190,559	Ch$	159,318	Ch$	141,305
Total allowances for loan losses as a percentage of total loans		3.43%		3.51%		2.87%		2.23%		1.72%

Amended Guidelines

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

Analysis of Our Loan Classification

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

Category	As of December 31, 2001 Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
	(in millions of constant Ch$ as of December 31, 2005)				
A	Ch$ 1,434,940	Ch$ 201,745	Ch$ 559,487	Ch$ 2,196,172	52.10%
B	1,688,891	18,278	43,659	1,750,828	41.54
B–	183,812	6,188	7,671	197,671	4.69
C	56,176	4,088	—	60,264	1.43
D	7,226	2,752	—	9,978	0.24
Total evaluated loans	Ch$ 3,371,045	Ch$ 233,051	Ch$ 610,817	Ch$ 4,214,913	100.00%
Total loans	Ch$ 3,418,949	Ch$ 233,051	Ch$ 610,817	Ch$ 4,262,817	
Percentage evaluated	98.60%	100.00%	100.00%	98.88%	

Category	As of December 31, 2002 Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
	(in millions of constant Ch$ as of December 31, 2005)				
A	Ch$ 2,372,243	Ch$ 379,829	Ch$ 831,932	Ch$ 3,584,004	54.69%
B	2,419,190	41,555	67,507	2,528,252	38.57
B–	232,996	10,094	20,954	264,044	4.03
C	128,956	8,667	—	137,623	2.10
D	32,815	7,423	—	40,238	0.61
Total evaluated loans	Ch$ 5,186,200	Ch$ 447,568	Ch$ 920,393	Ch$ 6,554,161	100.00%
Total loans	Ch$ 5,240,400	Ch$ 447,568	Ch$ 920,393	Ch$ 6,608,361	
Percentage evaluated	98.97%	100.00%	100.00%	99.18%	

Category	As of December 31, 2003 Commercial Loans	Consumer Loans	Residential Mortgage Loans	Total Loans	Percentage of Evaluated Loans
	(in millions of constant Ch$ as of December 31, 2005)				
A	Ch$ 2,365,028	Ch$ 455,331	Ch$ 872,991	Ch$ 3,693,350	55.97%
B	2,451,744	34,311	74,802	2,560,857	38.82
B–	190,875	8,873	22,397	222,145	3.37
C	70,189	7,335	—	77,524	1.18
D	37,923	5,414	—	43,337	0.66
Total evaluated loans	Ch$ 5,115,759	Ch$ 511,264	Ch$ 970,190	Ch$ 6,597,213	100.00%
Total loans	Ch$ 5,161,164	Ch$ 511,264	Ch$ 970,190	Ch$ 6,642,618	
Percentage evaluated	99.12%	100.00%	100.00%	99.32%	

Individual Analysis Category	As of December 31, 2004 (1)								
	Commercial Loans		Consumer Loans		Residential Mortgage Loans		Total Loans		Percentage of Evaluated Loans
	(in millions of constant Ch$ as of December 31, 2005)								
A1	Ch$	9,348		—		—	Ch$	9,348	0.18%
A2		1,575,384	Ch$	15,5	Ch$	52,268		1,643,176	31.38
A3		1,370,921		12,852		33,210		1,416,983	27.06
B		1,664,488		28,870		62,677		1,756,035	33.54
C1		191,101		6,316		9,754		207,171	3.96
C2		61,946		894		4,348		67,188	1.28
C3		28,730		341		1,036		30,107	0.57
C4		50,916		386		981		52,283	1.00
D1		36,060		259		93		36,412	0.70
D2		16,597		508		318		17,423	0.33
Subtotal evaluated loans	Ch$	5,005,491	Ch$	65,9	Ch$	164,685	Ch$	5,236,126	100.00%

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

Group Analysis Category	As of December 31, 2004 (1)								
	Commercial Loans		Consumer Loans		Residential Mortgage Loans		Total Loans		Percentage of Evaluated Loans
	(in millions of constant Ch$ as of December 31, 2005)								
A	Ch$	156,774	Ch$	593,379	Ch$	948,197	Ch$	1,698,350	89.94%
B		47,715		39,911		48,627		136,253	7.21
B-		11,445		8,949		17,964		38,358	2.03
C		1,710		6,817		—		8,527	0.45
D		1,461		5,578		—		7,039	0.37
Subtotal evaluated loans	Ch$	219,105	Ch$	654,634	Ch$	1,014,788	Ch$	1,888,527	100.00%
Total evaluated loans	Ch$	5,224,596	Ch$	720,584	Ch$	1,179,473	Ch$	7,124,653	
Total loans	Ch$	5,236,897	Ch$	720,584	Ch$	1,179,473	Ch$	7,136,954	
Percentage evaluated		99.77%		100.00%		100.00%		99.83%	

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

Individual Analysis Category	As of December 31, 2005 (1)								
	Commercial Loans		Consumer Loans		Residential Mortgage Loans		Total Loans		Percentage of Evaluated Loans
	(in millions of constant Ch$ as of December 31, 2005)								
A1	Ch$	12,705		—		—	Ch$	12,7	0.21%
A2		1,745,967	Ch$	17,774	Ch$	51,723		1,815,464	30.12
A3		1,738,621		13,231		32,138		1,783,990	29.60
B		1,970,436		40,723		76,953		2,088,112	34.64
C1		178,429		7,035		8,771		194,235	3.22
C2		41,060		1,510		4,769		47,339	0.79
C3		15,741		401		1,164		17,306	0.29
C4		31,828		376		405		32,609	0.54
D1		21,957		376		413		22,746	0.38
D2		12,059		793		67		12,919	0.21
Subtotal evaluated loans	Ch$	5,768,803	Ch$	82,219	Ch$	176,403	Ch$	6,027,425	100.00%

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

Group Analysis Category	As of December 31, 2005 (1)								
	Commercial Loans		Consumer Loans		Residential Mortgage Loans		Total Loans		Percentage of Evaluated Loans
	(in millions of constant Ch$ as of December 31, 2005)								
A	Ch$	150,917	Ch$	719,631	Ch$	1,113,052	Ch$	1,983,600	91.57%
B		48,416		39,759		42,563		130,738	6.03
B-		9,054		10,424		14,609		34,087	1.57
C		1,210		8,477		—		9,687	0.45
D		807		7,504		—		8,311	0.38
Subtotal evaluated loans	Ch$	210,404	Ch$	785,795	Ch$	1,170,224	Ch$	2,166,423	100.00%
Total evaluated loans	Ch$	5,979,207	Ch$	868,014	Ch$	1,346,627	Ch$	8,193,848	
Total loans	Ch$	5,991,283	Ch$	868,014	Ch$	1,346,627	Ch$	8,205,924	
Percentage evaluated		99.80%		100.00%		100.00%		99.85%	

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

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

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

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

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

	Domestic Loans				
	As of December 31,				
	2001	2002	2003	2004	2005
	(in millions of constant Ch$ as of December 31, 2005)				
Current	Ch$ 3,958,543	Ch$ 6,106,048	Ch$ 6,264,858	Ch$ 6,713,736	Ch$ 7,883,366
Overdue 1-29 days	18,404	28,118	21,850	28,964	45,268
Overdue 30-89 days	6,972	23,848	14,456	12,003	6,214
Overdue 90 days or more ("past due")	51,497	153,126	112,034	87,734	71,330
Total loans	Ch$ 4,035,416	Ch$ 6,311,140	Ch$ 6,413,198	Ch$ 6,842,437	Ch$ 8,006,178

	Foreign Loans				
	As of December 31,				
	2001	2002	2003	2004	2005
	(in millions of constant Ch$ as of December 31, 2005)				
Current	Ch$ 225,988	Ch$ 294,899	Ch$ 229,420	Ch$ 294,517	Ch$ 199,727
Overdue 1-29 days	376	—	—	—	—
Overdue 30-89 days	49	—	—	—	—
Overdue 90 days or more ("past due")	988	2,322	—	—	19
Total loans	Ch$ 227,401	Ch$ 297,221	Ch$ 229,420	Ch$ 294,517	Ch$ 199,746

	Total Loans				
	As of December 31,				
	2001	2002	2003	2004	2005
	(in millions of constant Ch$ as of December 31, 2005)				
Current	Ch$ 4,	Ch$ 6,	Ch$ 6,	Ch$ 7,	Ch$ 8,
Overdue 1-29 days	18,780	28,118	21,850	28,964	45,268
Overdue 30-89 days	7,021	23,848	14,456	12,003	6,214
Overdue 90 days or more ("past due")	52,485	155,448	112,034	87,734	71,349
Total loans	Ch$ 4,262,817	Ch$ 6,	Ch$ 6,642,618	Ch$ 7,136,954	Ch$ 8,205,924
Overdue loans expressed as a percentage of total loans	1.84%	3.14%	2.23%	1.80%	1.50%
Past due loans as a percentage of total loans	1.23%	2.35%	1.69%	1.23%	0.87%

We suspend the accrual of interest on any loan when there is a high risk of unrecoverability or from the first day when it becomes past due. The amount of interest that would have been recorded on overdue loans if they had been accruing interest was Ch$5,601 million for the year ended December 31, 2005.

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

	As of December 31,									
	2001		2002		2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)									
Ch$	Ch$	1,663	Ch$	5,222	Ch$	4,567	Ch$	4,361	Ch$	4,117
UF		271		232		262		539		154
Total	Ch$	1,934	Ch$	5,454	Ch$	4,829	Ch$	4,900	Ch$	4,271

The amount of interest that we would have recorded on these loans for the year ended December 31, 2005 if these loans had been earning a market interest rate was Ch$212 million.

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

	As of December 31,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)					
Total other restructured loans	Ch$	132,422	Ch$	81,092	Ch$	72,173

During the year ended December 31, 2005, interest recorded in income on these loans amounted to Ch$12,751 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. Loans for years prior to 2004 in the table below were analyzed in accordance with the previous guidelines, and loans for year 2005 and 2004 were analyzed in accordance with the amended guidelines. We have no restructured loans (troubled debt restructurings as defined in Statement of Financial Accounting Standards, or SFAS, No. 15 published by the Financial Accounting Standards Board, or FASB) that are not included in the following tables.

	As of December 31,				
	2001	2002	2003	2004	2005
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)				
Total loans	Ch$4,262,817	Ch$ 6,608,361	Ch$ 6,642,618	Ch$ 7,136,954	Ch$ 8,205,924
Substandard loans (1)	Ch$267,913	Ch$ 441,905	Ch$ 343,006	Ch$ 464,508	Ch$ 379,239
Substandard loans as a percentage of total Loans	6.28%	6.69%	5.16%	6.51%	4.62%
Amounts past due (2)					
To the extent secured (3)	Ch$ 35,269	Ch$ 99,210	Ch$ 74,991	Ch$ 59,257	Ch$ 50,254
To the extent unsecured	17,216	56,238	37,043	28,477	21,095
Total amount past due	Ch$ 52,485	Ch$ 155,448	Ch$ 112,034	Ch$ 87,734	Ch$ 71,349
Amounts past due as a percentage of total loans	1.23%	2.35%	1.69%	1.23%	0.87%
To the extent secured(2)	0.83	1.50	1.13	0.83	0.61
To the extent unsecured	0.40	0.85	0.56	0.40	0.26
Allowances for loans losses as a percentage of:					
Total loans	3.43	3.51	2.87	2.23	1.72
Total loans excluding contingent loans	3.71	3.74	3.07	2.42	1.89
Total amounts past due	278.72	149.07	170.09	181.59	198.05
Total amounts past due-unsecured	849.70%	412.05%	514.43%	559.46%	669.85%

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

Analysis of Allowances for Loan Losses

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

	December 31,									
	2001		2002		2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)									
Allowances for loan losses at beginning of period	Ch$	128,628	Ch$	249,678	Ch$	231,731	Ch$	190,559	Ch$	159,318
Charge-offs		(29,822)		(118,991)		(102,082)		(102,626)		(67,343)
Allowances established		51,946		134,201		65,375		77,771		56,606
Allowances released[(1)]		(1,256)		(26,258)		(1,545)		(1,613)		(1,592)
Price-level restatement[(2)]		(3,212)		(6,899)		(2,920)		(4,773)		(5,684)
Allowances for loan losses at end of period	Ch$	146,284	Ch$	231,731	Ch$	190,559	Ch$	159,318	Ch$	141,305
Ratio of charge-offs to average loans	0.69%		1.82%		1.53%		1.49%		0.90%	
Allowances for loan losses at end of period as a percentage of total loans	3.43%		3.51%		2.87%		2.23%		1.72%	

(1) Represents the aggregate amount of allowances for loan losses released during the year as a result of charge-offs, recoveries or a determination by management that the level of risk existing in the loan portfolio has been reduced.
(2) Reflects the effect of inflation on the allowances for loan losses at the beginning of each period, adjusted to constant pesos as of December 31, 2005.

As a result of an improvement in economic conditions in 2004 and in 2005, and a more effective credit and collection policy, allowances and the risk index decreased in both years. Based on the information we have available about our debtors, we believe that our allowances for loan losses are sufficient to cover known potential losses and losses inherent in a loan portfolio of this size and nature.

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

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

	Year ended December 31,									
	2001		2002		2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)									
Consumer loans	Ch$	9,715	Ch$	24,738	Ch$	20,339	Ch$	17,487	Ch$	19,452
Residential mortgage loans		3,366		6,764		15,965		12,364		13,272
Commercial loans		12,445		83,305		63,220		70,217		33,907
Leasing contracts		3,976		4,184		2,558		2,558		697
Foreign loans		320		—		—		—		15
Total	Ch$	29,822	Ch$	118,991	Ch$	102,082	Ch$	102,626	Ch$	67,34

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

	Year ended December 31,									
	2001		2002		2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)									
Consumer loans	Ch$	5,043	Ch$	3,421	Ch$	6,833	Ch$	8,823	Ch$	11,274
Residential mortgage loans		119		449		3,411		4,412		6,388
Commercial loans		3,240		7,119		13,943		16,145		14,829
Leasing contracts		1,162		1,019		1,099		—		—
Investments		—		—		850		—		—
Subtotal	Ch$	9,564	Ch$	12,008	Ch$	26,136	Ch$	29,380	Ch$	32,491
Recoveries and sales of loans reacquired from the Central Bank		1,092		770		827		5,570		495
Total	Ch$	10,656	Ch$	12,778	Ch$	26,963	Ch$	34,950	Ch$	32,986

Allocation of Allowances for Loan Losses

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

	2001				
	Allowance amount (1)		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 (2)
Commercial loans	Ch$	80,678	2.36%	1.89%	80.20%
Consumer loans		11,448	4.91	0.27	5.47
Residential mortgage loans		1,954	0.32	0.05	14.33
Total allocated allowances	Ch$	94,080	2.21%	2.21%	100.00%
Leasing contracts		10,581	0.24	0.24	
Foreign loans		4,583	0.11	0.11	
Voluntary allowances		37,040	0.87	0.87	
Total allowances	Ch$146,284		3.43%	3.43%	

	2002					2003				
	Allowance amount (1)		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 (2)	Allowance amount (1)		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 (2)
Commercial loans	Ch$	157,900	3.01%	2.39%	79.30%	Ch$	128,279	2.49%	1.93%	77.70%
Consumer loans		21,359	4.77	0.33	6.77		19,044	3.72	0.29	7.70
Residential mortgage loans		6,179	0.67	0.09	13.93		6,508	0.67	0.10	14.60
Total allocated allowances	Ch$	185,438	2.81%	2.81%	100.00%	Ch$	153,831	2.32%	2.32%	100.00%
Leasing contracts		11,380	0.17	0.17			8,785	0.13	0.13	
Foreign loans		12,865	0.20	0.20			6,113	0.09	0.09	
Voluntary allowances		22,048	0.33	0.33			21,830	0.33	0.33	
Total allowances	Ch$	231,731	3.51%	3.51%		Ch$	190,559	2.87%	2.87%	

	2004				2005			
	Allowance amount (1)	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 (2)	Allowance amount (1)	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 (2)
Commercial loans	Ch$ 97,278	1.86%	1.36%	73.37%	Ch$ 77,529	1.29%	0.94%	73.01%
Consumer loans	24,318	3.37	0.34	10.10	25,623	2.95	0.31	10.58
Residential mortgage loans	6,500	0.55	0.09	16.53	9,893	0.73	0.13	16.41
Total allocated allowances	Ch$ 128,096	1.79%	1.79%	100.00%	Ch$ 113,045	1.38%	1.38%	100.00%
Leasing contracts	6,072	0.09	0.09		5,885	0.07	0.07	
Foreign loans	4,728	0.07	0.07		1,379	0.02	0.02	
Additional allowances (3)	20,422	0.28	0.28		20,996	0.25	0.25	
Total allowances	Ch$ 159,318	2.23%	2.23%		Ch$ 141,305	1.72%	1.72%	

(1) In millions of constant pesos as of December 31, 2005.
(2) Based on our loan classification.
(3) Due to regulations on additional allowances included in Circular No. 3,246 of the Superintendency of Banks and Financial Institutions, we have redesignated our voluntary allowances to the additional allowances category in conformity with the new regulation.

The following table sets forth our charge-offs for 2003, 2004 and 2005 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,		
	2003	2004	2005
	(in millions of constant Ch$ as of December 31, 2005)		
Commercial:			
Agriculture	Ch$ 2,984	Ch$ 2,960	Ch$ 4,660
Mining	750	774	2,438
Manufacturing	7,864	5,432	1,672
Construction	1,143	7,003	1,300
Commerce	9,515	12,983	10,659
Transport	1,638	3,074	387
Financial services	31,700	8,020	2,649
Community	7,626	29,971	10,142
Subtotal:	Ch$ 63,220	Ch$ 70,217	Ch$ 33,907
Consumer loans	20,339	17,487	19,452
Residential mortgage loans	15,965	12,364	13,272
Leasing contracts	2,558	2,558	697
Foreign loans	—	—	15
Total	Ch$ 102,082	Ch$ 102,626	Ch$ 67,343

Composition of Deposits and Other Commitments

The following table sets forth the composition of our deposits and similar commitments at December 31, 2003, 2004 and 2005. 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.

	December 31, 2003	December 31, 2004	December 31, 2005
	(in millions of constant Ch$ as of December 31, 2005)		
Current accounts	Ch$ 1,303,883	Ch$ 1,475,853	Ch$ 1,516,219
Other demand liabilities	516,170	520,083	324,532
Savings accounts	169,655	147,458	138,326
Time deposits	3,464,735	3,648,117	4,474,927
Other commitments(1)	188,820	202,897	159,984
Total	Ch$ 5,643,263	Ch$ 5,994,408	Ch$ 6,613,988

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

Maturity of Deposits

The following table sets forth information regarding the currency and maturity of our deposits at December 31, 2005, expressed in percentages. UF-denominated deposits are similar to Chilean peso-denominated deposits in all respects, except that the principal is readjusted periodically based on variations in the Consumer Price Index.

	Ch$	UF	Foreign Currency	Total
Demand deposits	39.29%	0.53%	34.80%	30.25%
Savings accounts	—	9.81	—	2.09
Time deposits:				
Maturing within three months	48.58	19.25	59.28	44.18
Maturing after three but within six months	5.30	36.14	5.43	11.90
Maturing after six but within 12 months	5.26	25.18	0.28	8.64
Maturing after 12 months	1.57	9.09	0.21	2.94
Total time deposits	60.71	89.66	65.20	67.66
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 at December 31, 2005:

	Ch$	UF	Foreign Currency	Total
	(in millions of constant Ch$ as of December 31, 2005)			
Time deposits:				
Maturing within three months	Ch$ 1,345,044	Ch$ 209,524	Ch$ 460,926	Ch$ 2,015,494
Maturing after three but within six months	214,980	504,428	58,582	777,990
Maturing after six but within 12 months	210,276	349,879	1,887	562,042
Maturing after 12 months	60,625	125,606	2,263	188,494
Total time deposits	Ch$ 1,830,925	Ch$ 1,189,437	Ch$ 523,658	Ch$ 3,544,020

Minimum Capital Requirements

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

	As of December 31,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)					
Banco de Chile's regulatory capital	Ch$	600,104	Ch$	540,694	Ch$	594,383
Minimum regulatory capital required		(296,041)		(301,843)		(322,928)
Excess over minimum regulatory capital required	Ch$	304,063	Ch$	238,851	Ch$	271,455

Short-term Borrowings

Our short-term borrowings (other than deposits) totaled Ch$868,942 million as of December 31, 2003, Ch$888,495 million as of December 31, 2004 and Ch$407,298 million as of December 31, 2005.

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

	For the year ended December 31,					
	2003		2004		2005	
	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, 2005, except for rate data)					
Investments sold under agreements to repurchase	Ch$ 453,157	2.50%	Ch$ 361,653	2.15%	Ch$ 270,750	4.36%
Central Bank borrowings	26,448	2.28	111,518	0.19	—	—
Borrowings from domestic financial institutions	52,860	2.54	27,349	0.93	90,160	4.75
Foreign borrowings	283,643	1.29	353,002	1.93	13,983	0.02
Other obligations	52,834	—	34,973	—	32,405	—
Total short-term borrowings	Ch$ 868,942	1.95%	Ch$ 888,495	1.69%	Ch$ 407,298	3.95%

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

	For the year ended December 31,					
	2003		2004		2005	
	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, 2005, except for rate data)					
Investments sold under agreements to repurchase	Ch$ 372,673	2.58%	Ch$ 440,126	1.87%	Ch$ 298,547	3.56%
Central Bank borrowings	8,852	2.59	10,427	2.06	30,230	3.15
Borrowings from domestic financial institutions	104,139	2.47	109,343	2.48	211,453	3.84
Sub-total	Ch$ 485,664	2.56%	Ch$ 559,896	1.99%	Ch$ 540,230	3.65%
Foreign borrowings	277,073	1.77	307,381	1.34	164,274	1.73
Total short-term borrowings	Ch$ 762,737	2.27%	Ch$ 867,277	1.76%	Ch$ 704,504	3.20%

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

	Maximum 2003 month-end balance	Maximum 2004 month-end balance	Maximum 2005 month-end balance
	(in millions of constant Ch$ as of December 31, 2005)		
Investments sold under agreements to repurchase	Ch$ 453,157	Ch$ 519,900	Ch$ 334,785
Central Bank borrowings	36,473	111,518	119,436
Borrowings from domestic financial institutions	127,218	137,884	358,471
Foreign borrowings	Ch$ 349,657	Ch$ 434,025	Ch$ 312,172

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

OPERATING RESULTS

Introduction

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

We prepare our audited consolidated financial statements in accordance with Chilean GAAP (including the rules of the Chilean Superintendency of Banks relating thereto), which differ in certain significant respects from U.S. GAAP. Note 28 to our audited consolidated financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP as they relate to us. It also includes a reconciliation to U.S. GAAP of net income for the years ended December 31, 2003, 2004 and 2005 and shareholders' equity at December 31, 2004 and 2005.

Pursuant to Chilean GAAP, the financial data presented in this section for all full-year periods are restated in constant pesos of December 31, 2005. See "Presentation of Financial Information" and Note 1 to our audited consolidated financial statements.

Overview

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

Despite growth in the 1980s and 1990s, Chile's economy has remained smaller than the economies of neighboring countries such as Argentina and Brazil. Although Chile's economy has continued to grow in recent years, the Chilean economy's growth slowed in each of the years between 2000 and 2003. Since 2003, Chile's gross domestic product, or GDP, began to recover, showing growth rates of 6.2 % and 6.3% for the years 2004 and 2005, respectively. Unemployment has remained high, averaging 9.0% in 2002, 8.5% in 2003 and 8.8% in 2004, however during 2005, it dropped to 8.1%.

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

Inflation

Historically, Chile has experienced high levels of inflation that have significantly affected our financial condition and results of operations. Inflation has remained relatively low in recent years; the inflation rate was 3.7% in 2005, 2.4% in 2004 and 1.1% in 2003. However, a larger increase in inflation rates could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. Our results of operations reflect the effect of inflation in the following ways:

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

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

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

UF-denominated Assets and Liabilities. The UF is revalued in monthly cycles. On every day in the period beginning the tenth day of the current month through the ninth day of the next month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect each day a pro rata amount of the prior calendar month's change in the Consumer Price Index. One UF was equal to Ch$16,920.00 at December 31, 2003, Ch$17,317.05 at December 31, 2004 and Ch$17,974.81 (U.S.$34.96) at December 31, 2005. 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$1,165,164 million during the year ended December 31, 2003, Ch$1,338,014 million during the year ended December 31, 2004 and Ch$1,417,321 million (U.S.$2,756 million) during the year ended December 31, 2005. See "Item 4. Information on the Company—Selected Statistical Information."

Peso-denominated Assets and Liabilities. Interest rates in Chile tend to reflect the rate of inflation during the relevant period and expectations regarding future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to the inflation rate varies. See "—Interest Rates." We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. The ratio of such deposits to average interest bearing peso-denominated liabilities was 66% during 2003, 64% during 2004 and 65% during 2005. 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, to some degree, inflation and expectations regarding future inflation, shifts in short-term interest rates related to the Central Bank's monetary policies and movements in long-term real rates. The Central Bank manages short-term interest rates based on its objectives of balancing low inflation and economic growth. Because our liabilities generally re-price faster than our assets, changes in the rate of inflation or short-term interest rates are reflected in the rates of interest we pay on our liabilities before they are reflected in the interest rates we earn on our assets. Accordingly, our net interest margin on assets and liabilities is usually adversely affected in the short-term by increases in inflation or short-term interest rates and benefits in the short-term from decreases in inflation or short-term interest rates, although the existence of non-interest bearing peso-denominated demand deposits tends to mitigate both effects. See "—Inflation—Peso-denominated Assets and Liabilities." In addition, because our peso-denominated liabilities have relatively short re-pricing periods, those liabilities generally are more responsive to changes in inflation or short-term interest rates than our UF-denominated liabilities. As a result, during periods when current inflation exceeds the previous month's inflation, customers often switch funds from peso-denominated deposits to more expensive UF-denominated deposits, thereby adversely affecting our net interest margin.

The average real annual short-term interest rate based on the rate paid by Chilean financial institutions for 90- to 360-day Chilean peso-denominated deposits was 1.76% in 2003, 1.07% in 2004 and 1.89% in 2005. The average annual real long-term interest rate based on the Central Bank's eight-year Chilean peso-denominated bonds was 3.96% in 2003, 3.52% in 2004 and 2.54% in 2005.

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$24,112 million at December 31, 2003, Ch$37,857 million at December 31, 2004 and Ch$26,451 at December 31, 2005. See Note 20 to our audited consolidated financial statements. This gap includes assets and liabilities denominated in foreign currencies and assets and liabilities denominated in Chilean pesos that contain repayment terms linked to changes in foreign currency exchange rates. Because foreign currency-denominated assets and liabilities, as well as interest earned or paid on such assets and liabilities and gains (losses) realized upon the sale of such assets, are translated into pesos in preparing our audited consolidated financial statements, our reported income is affected by changes in the value of the peso with respect to foreign currencies, primarily the U.S. dollar. For their part, adjustments to U.S. dollar-indexed assets are reflected as adjustments in net interest earnings and offset results in the foreign exchange position. The exchange rate variation over capital and reserves of our foreign branches is adjusted against equity rather than against net income.

Critical Accounting Policies

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

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

Allowances for loan losses

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

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

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

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

Fair value accounting

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

Price-level restatement

Chilean GAAP requires that financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method prescribes that the historical cost of all non-monetary accounts be restated for general price-level changes between the date of origin of each item and the year-end. A bank's net monetary asset position is determined by subtracting its net nonmonetary asset position (nonmonetary assets less nonmonetary liabilities) from shareholders' equity. As such, under Chilean GAAP, the gain (or loss) from price-level restatement in results of operations is determined by subtracting the price-level restatement adjustment of net nonmonetary assets from the price-level restatement adjustment of shareholders' equity. The inflation rate used for purposes of such adjustments is the change in the Consumer Price Index during the 12 months ended November 30 of the reported year. The change in the Consumer Price Index used for price-level restatement purposes was 1.0% in 2003, 2.5% in 2004 and 3.6% in 2005. See Note 1(b) to our audited consolidated financial statements. The actual change in the Consumer Price Index was 1.1% in the year ended December 31, 2003, 2.4% in the year ended December 31, 2004 and 3.7% in the year ended December 31, 2005.

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, 2004 and 2005 audited consolidated financial statements and their accompanying notes have been presented in constant Chilean pesos as of December 31, 2005. As described in Note 1(s) of our audited consolidated financial statements, certain balances of previous years' financial statements have been reclassified to conform with the present year presentation.

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

Goodwill

Under U.S. GAAP, we have significant intangible assets related to goodwill. We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other acquired intangibles, at fair value as required by SFAS No. 141, published by FASB. These include amounts pushed down from our parent Quiñenco S.A. Under SFAS No. 142, goodwill must be allocated to reporting units and tested for impairment. On December 31, 2005, goodwill has been allocated according to the structure of our business areas in 2005.

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

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

Goodwill was not impaired as of December 31, 2005, nor was any goodwill written-off during the years ended December 31, 2004 and 2005.

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

Changes in Accounting Principles

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

In accordance with Circular No. 3,196, issued by the Chilean Superintendency of Banks, effective October 31, 2002, we modified our accounting treatment of financial investments in mortgage finance bonds issued by us. This change consisted of subtracting the amount recorded for mortgage finance bonds issued by us from assets, and subtracting the respective mortgage finance bonds obligation from liabilities. Similarly, the difference between the amount deducted from related assets and liabilities was recognized under other assets and is amortized using the straight-line method based on the maturity of the obligation. As of December 31, 2004 and 2005, we recorded a net amount of Ch$2,230 million and Ch$1,762 million, respectively, under "Other assets."

Differences between Chilean and United States Generally Accepted Accounting Principles

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

Results of Operations for the Years Ended December 31, 2003, 2004 and 2005

The following section discusses the results of operations for the years ended December 31, 2003, 2004 and 2005. To the extent that it is available and is useful in analyzing our results, we have included information broken down by the business areas we use in internal reporting. We also present our results on a consolidated basis.

We use a business area-based profitability system to manage our business. This system allows us to extract income, balances, interest rate and expense information by client and also allows us to view information by account officer, branch or business area. 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 areas. Developed internally, the system has been continuously refined resulting in cost re-allocations. Figures for years before 2005 have been restated according to the current manner in which we measure our business areas during 2005.

Our business is organized into the following areas:

- retail market;
- wholesale market;
- international banking;
- treasury and money market operations; and
- operations through subsidiaries

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

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

- We measure the net interest margin of loans and deposits on an individual transaction and client basis, based on the difference between the effective customer rate and our related fund transfer price in terms of maturity, repricing and currency.
- The results associated with our gap management (interest rate mismatches) have been allocated among different business areas in accordance with the amount of our long-term loans outstanding.
- Our management model, which measures the performance of our business areas, considers results that are directly related to performance and not to overhead expenses of corporate and support departments, additional allowances (previously referred to as “voluntary allowances” under guidelines prior to 2004), taxes and other non-operating income and expenses.
- In addition to direct costs (consisting mainly of labor and administrative expenses), we allocate the majority of our indirect operating costs to each business area based on the type and amount of the relevant transactions. These costs are mainly related to the use of technology and computer equipment. Other indirect costs are allocated using activity-based costing methodology.

Pre-Tax Income by Business Area

The following table sets forth pre-tax income by business area for each of the years ended December 31, 2003, 2004 and 2005. The line item "Other" includes the effect of conforming internal accounting policies to Chilean GAAP and a number of non-allocated costs, such as human resources related expenses, additional provisions (previously referred to as "voluntary provisions") and depreciation costs. For internal reporting purposes, we control and monitor these costs separately and do not include them in the determination of business area profitability. Also included within "Other" are specific portions of income such as rental income.

	Year Ended December 31,			% Increase (Decrease)	
	2003	2004	2005	2003/2004	2004/2005
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)				
Retail banking	Ch$ 87,078	Ch$ 99,572	Ch$ 114,556	14.3%	15.0%
Wholesale banking	43,714	35,056	64,992	(19.8)	85.4
International banking	11,167	3,716	(6,101)	(66.7)	—
Treasury and money market operations	20,145	25,571	15,751	26.9	(38.4)
Subsidiaries	22,583	29,196	26,522	29.3	(9.2)
Other	(31,290)	(15,978)	(13,605)	(48.9)	(14.9)
Pre-tax income	Ch$ 153,397	Ch$ 177,133	Ch$ 202,115	15.5%	14.1%

2004 and 2005. The 14.1% increase in pre-tax income in 2005 as compared to 2004 was primarily attributable to an 8.7% increase in net interest revenue, a 46.5% decrease in provisions for loan losses and a 4.9% increase in fee income, which was partially offset by a 10.8% increase in operating expenses. These positive results mainly reflected: (i) our many initiatives to expand our customer base, which generated higher operating revenues principally to retail banking, (ii) the improved economic environment, which positively impacted the credit quality of corporate portfolios and (iii) higher earnings from demand deposits as a consequence of higher nominal interest rates.

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

Retail Banking. 2004 and 2005. The 15.0% increase in the retail banking business area's pre-tax income in 2005 was primarily attributable to a 10.0% increase in operating revenues from Ch$259,127 million in 2004 to Ch$285,020 million in 2005 fueled by a 12.6% expansion in the loan portfolio, higher earnings from demand deposits and, to a lesser extent, higher fee income. We believe that our focus on broadening our distribution channels as well as creating better service and product alternatives has become a key element in increasing our retail customer base, generating higher operating revenues despite the smaller margins that result from growing competition in this area.

2003 and 2004. The 14.3% increase in the retail banking business area's pre-tax income in 2004 was primarily attributable to a 11.8% increase in operating revenues from Ch$231,713 million in 2003 to Ch$259,127 million in 2004, which, in turn, was due to 12.2% growth in the retail banking business area's loan portfolio and, to a lesser extent, higher fee income. These factors were partially offset by higher operating expenses and higher provisions for loan losses.

Wholesale. 2004 and 2005. The 85.4% increase in the wholesale business area's pre-tax income in 2005 was primarily attributable to a significant improvement in loan portfolio credit quality (in particular, that part of the portfolio related to the construction and commerce sectors) and to an 10.8% increase in operating revenues from Ch$106,933 million in 2004 to Ch$118,486 million in 2005, a consequence of the 21.1% expansion in loans, higher fee income (mainly from commercial loans, collection and payment services) and higher income from demand deposits.

2003 and 2004. The 19.8% decrease in the wholesale business area's pre-tax income in 2004 was primarily attributable to a 6.7% decrease in operating revenues from Ch$114,621 million in 2003 to Ch$106,933 million in 2004, which, in turn, was due to a decrease in lending spreads and losses from the sale of corporate loans. The decrease in pre-tax income was also explained by a 32.7% decrease in "other" income and expenses and by a 2.1% increase in operating expenses, primarily due to marketing and technology costs.

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

2003 and 2004. The 67% decrease in the international banking business area's pre-tax income of Ch$3,716 million in 2004 from Ch$11,167 million in 2003 was primarily attributable to the earnings generated in 2003 from the sale of Latin American investment securities held at our New York branch and, to a lesser extent, to provisions release during 2003.

Treasury and Money Market Operations. 2004 and 2005. The treasury and money market operations business area's pre-tax income decreased to Ch$15,751 million in 2005 from Ch$25,571 million in 2004 primarily as a consequence of lower sales and mark to market securities results, as a result of the increase in long-term interest rates during the last quarter of 2005, and due to the lower balance maintained in financial instruments by us during 2005.

2003 and 2004. The 26.9% increase in the treasury and money market operations business area's pre-tax income in 2004 was primarily attributable to increased income from our investment portfolio, which, in turn, was due to an increase in the value of our UF-denominated assets from increased inflation and a decrease in Chilean peso-denominated cost of funds from a decrease in the short term reference rate from 2.73% in 2003 to 1.87% in 2004.

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

2003 and 2004. The 29.3% increase in pre-tax income from our subsidiaries in 2004 was primarily attributable to the 23.8% increase in fee income from their operations from Ch$38,776 million in 2003 to Ch$48,003 million in 2004, which resulted in a 21.2% increase in operating revenues. The increase in our subsidiaries' fee income was also a result of increased cross-selling of products by our subsidiaries, as well as the growth of the Chilean economy. In particular, fee income from our securities brokerage subsidiary increased 24.7% during 2004. The 80% increase in fee income from services generated by our financial advisory services subsidiary was primarily attributable to fee income from investment banking and advisory services.

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, 2003, 2004 and 2005:

	Year Ended December 31,			% Increase (Decrease)	
	2003	2004	2005	2003/2004	2004/2005
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)				
Net interest revenue	Ch$ 238,3	Ch$ 340,2	Ch$369,798	42.8%	8.7%
Provisions for loan losses	(36,8	(41,2	(22,028)	11.8	(46.5)
Fees and income from services, net	101,7	131,4	137,793	29.1	4.9
Other operating income (loss), net	102,3	15,0	10,860	(85.3)	(27.7)
Other income and expenses, net	(11,5	(11,0	(6,394)	(4.3)	(42.1)
Minority interest	(2)	(1)	—	(50.0)	—
Operating expenses	(236,4	(249,6	(276,464)	5.6	10.8
Net loss from price-level restatement	(4,2	(7,7	(11,450)	80.5	48.0
Net income before income taxes	153,3	177,1	202,115	15.5	14.1
Income taxes	(14,7	(19,0	(21,391)	28.8	12.5
Net income	Ch$ 138,6	Ch$ 158,1	Ch$180,724	14.1%	14.3%

2004 and 2005. Our net income for 2005 was Ch$180,724 million, an increase of 14.3% from Ch$158,123 million in 2004, primarily reflecting the 8.7% increase in net interest revenue, a 46.5% decrease in provisions for loan losses and, to a lesser extent, an increase in fee income and a decrease in other expenses, net. These factors more than offset a 10.8% increase in our operating expenses.

2003 and 2004. Our net income for 2004 was Ch$158,123 million, an increase of 14.1% from Ch$138,634 million in 2003, primarily reflecting a 42.8% increase in net interest revenue and a 29.1% increase in fee income. These factors were partially offset by a decrease in other operating income, net, an increase in operating expenses and increased provisions for loan losses.

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, 2003, 2004 and 2005. This information is derived from the tables included elsewhere in this annual report under "Item 4. Information on the Company—Selected Statistical Information" and is qualified in its entirety by reference to such information.

	Year Ended December 31,			% Increase (Decrease)	
	2003	2004	2005	2003/2004	2004/2005
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)				
Interest revenue	Ch$ 455,2	Ch$ 562,9	Ch$ 680,1	23.7%	20.8%
Interest expense	(216,8	(222,6	(310,3	2.7	39.4
Net interest revenue	Ch$ 238,3	Ch$ 340,2	Ch$ 369,7	42.8%	8.7%
Net interest margin(1)	2.75%	3.84%	4.06%	—	—

(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.

2004 and 2005. Net interest revenue increased by 8.7%, from Ch$340,297 million in 2004 to Ch$369,798 million in 2005, primarily as a result of 22 basis point (one basis point equals one one-hundredth (1/100th) of a percent) increase in net interest margin (net interest revenue divided by average interest earning assets) from 3.84% in 2004 to 4.06% in 2005 and, to a lesser extent, by a 2.8% growth in average interest earning assets. The increase in net interest margin was largely as a result of the following:

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

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

- a reduced negative impact of the 8.1% appreciation of the Chilean peso against the U.S. dollar in 2005, as we reduced significantly our net asset position in assets and liabilities denominated in Chilean pesos, readjusted in accordance with changes in the U.S. dollar exchange rate (this position is usually hedged with a net liability position in U.S. dollars and, consequently, decreased our net interest revenue, but originated accounting gains shown in the foreign exchange transaction line item).

These favorable effects were partially offset by:

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

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

2003 and 2004. Net interest revenue increased by 42.8%, from Ch$238,365 million in 2003 to Ch$340,297 million in 2004, primarily as a result of a 2.2% increase in average interest earning assets and an increase of 109 basis points in net interest margin (net interest revenue divided by average interest earning assets), from 2.75% in 2003 to 3.84% in 2004. The increase in net interest margin was primarily the result of the following:

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

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

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

- a reduced negative impact of the 6.6% appreciation of the Chilean peso against the U.S. dollar in 2004, as compared to the 15.9% appreciation in 2003, as we maintained a net asset position in assets and liabilities denominated in Chilean pesos, readjusted in accordance with changes in the U.S. dollar exchange rate (this position is usually hedged with a net liability position in U.S.

dollars and, consequently, decreased our net interest revenue, but originated accounting gains shown in the foreign exchange transaction line item in 2004).

Interest Revenue

The following table sets forth information regarding our interest revenue and average interest earning assets for the years ended December 31, 2003, 2004 and 2005:

	Year Ended December 31,			% Increase (Decrease)	
	2003	2004	2005	2003/2004	2004/2005
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)				
Interest revenue[1]	Ch$ 455,2	Ch$ 562,933	Ch$ 680,149	23.7%	20.8%
Average interest earning assets:					
Commercial loans[2]	Ch$ 3,3	Ch$ 3,508,211	Ch$ 4,267,548	4.4	21.6
Consumer loans	447,9	657,567	769,891	46.8	17.1
Mortgage loans[3]	1,2	1,036,992	721,962	(15.6)	(30.4)
Foreign trade loans	694,8	707,498	633,600	1.8	(10.4)
Interbank loans	88,9	46,800	39,786	(47.4)	(15.0)
Past due loans[4]	143,7	102,525	81,757	(28.7)	(20.3)
Contingent loans[5]	419,2	493,847	614,725	17.8	24.5
Leasing contracts	281,6	315,040	391,220	11.9	24.2
Total loans	Ch$ 6,6	Ch$ 6,868,480	Ch$ 7,520,489	3.1%	9.5%
Financial investments[6]	1,8	1,900,244	1,435,438	0.6	(24.5)
Interbank deposits	127,4	100,202	157,485	(21.4)	57.2
Total	Ch$ 8,6	Ch$ 8,868,926	Ch$ 9,113,412	2.2%	2.8%
Average rates earned on total interest earning assets[7]:					
Average nominal rates	5.24%	6.35%	7.46%	—	—
Average real rates	4.89%	2.38%	2.02%	—	—

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

2004 and 2005. Interest revenue increased by 20.8%, from Ch$562,933 million in 2004 to Ch$680,149 million in 2005, primarily as a result of an increase in the average nominal interest rates earned from 6.35% in 2004 to 7.46% in 2005 and, to a lesser extent, a 2.8% growth in average interest earning assets driven by a 9.5% increase in average loans, which offset the 24.5% decrease in average investments. The increase in average nominal interest rates was mainly the result of an increase in the inflation rate (from 2.4% in 2004 to 3.7% in 2005) and successive increases of the Central Bank's nominal reference rates (from 2.25% as of December 2004 to 4.50% at the end of 2005).

2003 and 2004. Interest revenue increased by 23.7%, from Ch$455,241 million in 2003 to Ch$562,933 million in 2004, primarily as a result of an increase in average nominal rates earned and a 2.2% increase in average interest earning assets from Ch$8,680,732 million in 2003 to Ch$8,868,926 million in 2004, primarily a result of higher loan balances. Average nominal interest rates earned increased from 5.24% in 2003 to 6.35% in 2004, primarily as a result of an increase in the inflation rate from 1.1% in 2003 to 2.4% in 2004 and successive increases of the Central Bank's nominal reference rates (from 1.75% as of February 2004 to 2.25% as of December 2004).

Interest Expense

The following table sets forth information regarding our interest expense and average interest bearing liabilities for the years ended December 31, 2003, 2004 and 2005:

	Year ended December 31,						% Increase (Decrease)	
	2003		2004		2005		2003/2004	2004/2005
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)							
Interest expense	Ch$	216,8	Ch$	222,6	Ch$	310,3	2.7%	39.4%
Average interest-bearing liabilities:								
Time deposits[1]	Ch$	3,5	Ch$	3,5	Ch$	3,9	1.5	9.6
Savings accounts		183,3		152,0		139,2	(17.1)	(8.4)
Total Central Bank borrowings		12,3		12,8		31,8	3.8	148.0
Investments sold under agreements to repurchase		372,6		440,1		298,5	18.1	(32.2)
Mortgage finance bonds		1,0		946,9		616,7	(13.1)	(34.9)
Other interest-bearing liabilities[2]		1,1		1,1		1,4	2.3	25.5
Total	Ch$	6,3	Ch$	6,3	Ch$	6,4	(0.4)%	2.8%
Average rates paid on total interest bearing liabilities[3]:								
Average nominal rates	3.42%		3.53%		4.79%			
Average real rates	(1.89)%		(0.67)%		(0.86)%			
Average (Chilean peso-denominated) non-interest bearing demand deposits	Ch$	1,9	Ch$	2,1	Ch$	2,1	11.5 %	1.0%

(1) Includes interest-earning demand deposits.
(2) Combines bonds, interest-bearing demand deposits and other interest bearing liabilities.
(3) See "Item 4. Information on the Company—Selected Statistical Information—Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities."

2004 and 2005. Interest expense increased by 39.4%, from Ch$222,636 million in 2004 to Ch$310,351 million in 2005, primarily as a result of an increase in average nominal interest rates paid, from 3.53% in 2004 to 4.79% in 2005 and, to a lesser extent, the 2.8% increase in average interest-bearing liabilities from Ch$6,307,091 million in 2004 to Ch$6,481,877 million in 2005. The increase in average interest bearing liabilities was primarily a result of a 9.6% increase in time deposits and a 25.5% increase in other interest-bearing liabilities mainly related to bonds and subordinated bonds. The increase in average nominal interest rate paid was primarily attributable to the higher inflation rate and successive increases in the Central Bank's monetary policy rates.

2003 and 2004. Interest expense increased by 2.7%, from Ch$216,876 million in 2003 to Ch$222,636 million in 2004, primarily as a result of an increase in the average nominal interest rates paid from 3.42% in 2003 to 3.53% in 2004. The increase in average nominal interest rates was partially offset by the 0.4 % decrease in average interest bearing liabilities from Ch$6,332,981 million in 2003 to Ch$6,307,091 million in 2004, primarily as a result of an 11.5% increase in average non-interest bearing demand deposits denominated in Chilean pesos.

Provisions for Loan Losses

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

The following table sets forth information with respect to our provisions and allowances for loan losses and charge-offs for each of the years ended December 31, 2003, 2004 and 2005:

	Year Ended December 31,						% Increase (Decrease)	
	2003		2004		2005		2003/2004	2004/2005
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)							
Provisions:								
Total provisions for loan losses	Ch$	36,867	Ch$	41,208	Ch$	22,028	11.8%	(46.5)%
Gross provisions for loan losses		63,830		76,158		55,014	19.3	(27.8)
Total loan loss recoveries		26,963		34,950		32,986	29.6	(5.6)
Charge-offs:								
Total charge-offs		102,082		102,626		67,343	0.5	(34.4)
Net charge-offs		75,119		67,676		34,357	(9.9)	(49.2)
Other asset quality data:								
Total loans	Ch$	6,642,618	Ch$	7,136,954	Ch$	8,205,924	7.4	15.0
Consolidated risk index		2.36%		2.23%		1.72%	—	—
Unconsolidated risk index		2.41%		2.23%		1.72%	—	—
Allowances for loan losses[1]	Ch$	190,559	Ch$	159,318	Ch$	141,305	(16.4)%	(11.3)%
Allowances for loan losses as a percentage of total loans		2.87%		2.23%		1.72%	—	—

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

2004 and 2005. Despite the 15.0% increase in total loans in 2005, our overall provisions for loan losses decreased by 46.5%, from Ch$41,208 million in 2004 to Ch$22,028 million in 2005, primarily as a result of an improvement in the financial condition of our corporate clients and the economic environment. These factors positively impacted our corporate portfolios, in particular those related to the construction and commerce sectors. Provisions related to individuals also improved, registering a modest increase despite an approximately 13.0% increase in the size of the retail market loan portfolio. As a consequence, the ratio of provisions for loan losses to average loans fell to 0.29% in 2005 from 0.60% in 2004. On a consolidated basis, our risk index decreased from 2.23% in 2004 to 1.72% in 2005.

2003 and 2004. Our overall provisions for loan losses increased by 11.8%, from Ch$36,867 million in 2003 to Ch$41,208 million in 2004, primarily as a result of 7.4% growth in the loan portfolio and the risk classification downgrade of certain corporate clients primarily concentrated in the construction sector. Provisions for loan losses represented approximately 0.60% of average loans in 2004, a small increase from 0.55% in 2003. On a consolidated basis, our risk index decreased from 2.36% in 2003 to 2.23% in 2004.

Fees and Income from Services, Net

The following table sets forth certain components of our fees and income from services (net of fees paid to third parties that provide support for those services, principally fees relating to sales force and receipts and collection services provided to us) for the years ended December 31, 2003, 2004 and 2005:

	Year Ended December 31,			% Increase (Decrease)	
	2003	2004	2005	2003/2004	2004/2005
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)				
Mutual funds	Ch$ 14,0	Ch$ 19,2	Ch$ 23,1	36.9%	20.2%
Demand deposits and overdrafts	23,0	24,9	23,1	8.3	(7.0)
Insurance	9,9	14,7	19,8	48.3	34.7
Stock brokerage	9,8	12,5	15,0	26.8	20.6
Credit cards	8,9	12,0	12,6	34.3	5.1
Debit accounts and ATMs	8,6	10,8	12,4	24.6	15.1
Receipts and payment of services	7,6	8,2	9,1	8.3	10.9
Collection of over-due loans	9,1	8,8	8,6	(3.0)	(2.5)
Financial advisory services	5,6	4,7	8,1	(15.5)	69.5
Credit lines	5,8	6,9	7,2	19.2	4.0
Letters of credit, guarantees, collaterals and other contingent loans	4,2	5,3	4,7	26.4	(11.0)
Income and revenue from assets received in lieu of payment	2,5	4,0	3,5	55.7	(12.3)
Foreign trade and currency exchange	3,4	3,5	3,3	2.1	(5.6)
Collection services	3,0	3,6	2,5	20.9	(31.5)
Prepaid loans	2,0	3,4	2,3	64.3	(31.5)
Custody and trust services	967	1,4	1,7	49.8	21.6
Leasing	1,1	1,5	1,2	33.7	(19.6)
Factoring	777	605	610	(22.1)	0.8
Sales force expenses	(11,5	(11,5	(15,0	0.5	29.5
Cobranding expenses	(6,3	(3,7	(5,8	(40.4)	54.5
Teller services expenses	(3,3	(3,5	(3,9	4.2	12.8
Other	1,8	3,4	2,8	88.2	(16.7)
Total	Ch$ 101,7	Ch$ 131,4	Ch$ 137,7	29.1%	4.9%

2004 and 2005. Fees and income from services net increased by 4.9%, from Ch$131,408 million in 2004 to Ch$137,793 million in 2005, primarily as a result of an increase in fees generated by insurance, mutual funds, financial advisories (principally associated to loan restructurings) and stock brokerage businesses, and to a lesser extent, to an increase in fees related to debit accounts and ATMs (primarily due to an increase in the client base with new checking accounts, coupled with the expansion of 257 new ATMs), receipts and payment of services and credit cards. The increase in fees was partially offset by higher sales force and cobranding expenses incurred in 2005, reflecting our aggressive efforts to expand our retail market business area.

2003 and 2004. Fees and income from services net increased by 29.1% from Ch$101,787 million in 2003 to Ch$131,408 million in 2004, primarily as a result of an increase in fees generated by mutual funds, insurance and stock brokerage related products, credit cards, checking accounts, overdrafts, debit accounts and ATM transactions. Fee income accounted for 27.0% of operating revenues during 2004, an increase from 23.0% in 2003, primarily as a result of the improved quality and increased quantity of fee generating products through alliances, promotions, product innovations and expanded distribution.

Other Operating Income (Loss), Net

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

The following table sets forth certain components of our other operating income (loss), net, in the years ended December 31, 2003, 2004 and 2005:

	Year Ended December 31,						% Increase (Decrease)	
	2003		2004		2005		2003/2004	2004/2005
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)							
Gains (losses) on trading activities, net	Ch$	5,6	Ch$	(3,2	Ch$	3,2	—	—
Foreign exchange transactions, net		96,6		18,2		7,5	(81.1)%	(58.6)%
Net other operating income	Ch$	102,3	Ch$	15,0	Ch$	10,8	(85.3)%	(27.7)%

2004 and 2005. In 2005, other operating income, net decreased by 27.7%, from Ch$15,031 million in 2004 to Ch$10,860 million in 2005, primarily as a result of a decrease in income from foreign exchange transactions in 2005, partially offset by gains on trading activities in 2005 (as compared to net trading losses in 2004).

Foreign exchange transactions, net decreased by 58.6%, from Ch$18,296 million in 2004 to Ch$7,571 million in 2005 as a result of the reduction of our net liability position in U.S. dollars. This position is usually hedged with a net asset position in Chilean peso-denominated assets and liabilities, readjusted in U.S. dollars.

Gains on sales of financial instruments for the year 2005 amounted to Ch$3,289 million as compared to a loss of Ch$3,265 million in 2004. The net gains registered in 2005 were mainly related to earnings obtained from Central Bank securities maintained by our brokerage subsidiary.

2003 and 2004. In 2004, other operating income, net contributed net income of Ch$15,031 million, a substantial decrease from Ch$102,357 million in 2003, primarily as a result of a significant decrease in income from foreign exchange transactions in 2004 and, to a lesser extent, losses on trading activities in the same year.

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

Gains on sales of financial instruments in 2004 accounted for a loss of Ch$3,265 million as compared to a gain of Ch$5,659 million in 2003. This loss was primarily a result of losses caused by decreases in the fair value of cross-currency swap transactions recorded during 2004 and losses associated with the sale of two loans in the manufacturing and retail sectors during 2004.

Other Income and Expenses, Net

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

The following table sets forth certain components of our "other income and expenses, net," for the years ended December 31, 2003, 2004 and 2005:

	Year Ended December 31,			% Increase (Decrease)	
	2003	2004	2005	2003/2004	2004/2005
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)				
Non-operating income	Ch$ 5,626	Ch$ 4,995	Ch$ 7,8	(11.2)%	57.3%
Non-operating expenses	(15,861)	(16,483)	(14,9	3.9	(9.4)
Subtotal	(10,235)	(11,488)	(7,0	12.2	(38.4)
Income from investments in other companies	(1,296)	452	681	—	50.7
Minority interest	(2)	(1)	—	(50.0)	(100.0)
Total	Ch$ (11,533)	Ch$ (11,037)	Ch$ (6,3	(4.3)%	(42.1)%

2004 and 2005. Other income and expenses, net decreased by 42.1% from an expense of Ch$11,037 million in 2004 to an expense of Ch$6,394 million in 2005. The decrease was primarily a result of lower non-operating expenses, net recorded in 2005, which was primarily a result of higher gains on assets received in lieu of payment in 2005 and due to tax expenses from previous years related to credit cards recorded in 2004.

2003 and 2004. Other income and expenses, net decreased by 4.3% from an expense of Ch$11,533 million in 2003 to an expense of Ch$11,037 million in 2005, primarily as a result of losses in connection with equity investments related to an affiliate that offers e-commerce services to our corporate customers in 2003.

Operating Expenses

The following table sets forth information regarding our operating expenses in the years ended December 31, 2003, 2004 and 2005:

	Year Ended December 31,			% Increase (Decrease)	
	2003	2004	2005	2003/2004	2004/2005
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)				
Personnel salaries and expenses	Ch$ 132,4	Ch$ 140,9	Ch$ 150,6	6.4%	6.9%
Administrative and other expenses:					
Advertising	8,2	11,2	11,9	36.1	6.5
Building maintenance	5,9	6,9	5,7	17.6	(16.9)
Rentals and insurance	9,5	9,5	10,5	0.1	10.8
Office supplies	4,5	4,7	4,8	4.5	2.5
Other expenses	57,7	59,6	75,7	3.3	26.9
Total administrative and other expenses	Ch$ 85,9	Ch$ 92,1	Ch$ 108,9	7.2%	18.2%
Depreciation and amortization	18,0	16,5	16,9	(8.1)	2.2
Total	Ch$ 236,4	Ch$ 249,6	Ch$ 276,4	5.6%	10.8%

2004 and 2005. Our operating expenses increased by 10.8%, from Ch$249,623 million in 2004 to Ch$276,464 million in 2005, principally reflecting the impact of higher administrative expenses and, to a lesser extent, the growth in personnel costs.

Higher administrative expenses were primarily the result of expenses incurred by our U.S. branches during 2005 in connection with our efforts to comply with orders entered into with the OCC and the Federal Reserve. These expenses, which mainly included legal counsel and consulting expenses, amounted to approximately Ch$12,700 million in 2005, compared to Ch$1,500 million in late 2004. For a description of the orders, see "Item 8. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings." To a lesser extent, administrative expenses during 2005 were impacted by higher advertising costs in order to support commercial activities, increased rental expenses (principally associated with the expansion of our distribution network) and higher consulting and technology expenses incurred by our subsidiaries.

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

2003 and 2004. Our operating expenses increased by 5.6%, from Ch$236,426 million in 2003 to Ch$249,623 million in 2004, primarily as a result of increased personnel and administrative expenses. Personnel salaries and expenses increased by 6.4% during 2004, primarily as a result of salary increases, higher performance-related incentive expenses, the addition of 225 employees and a one-time bonus payment of approximately Ch$4,030 million made in the fourth quarter of 2004 in connection with our four-year collective bargaining agreement with our labor unions.

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

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

Loss from Price-Level Restatement

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

2004 and 2005. The loss from price-level restatement increased from Ch$7,735 million in 2004 to Ch$11,450 million in 2005, primarily as a result of the increase in the inflation rate used for adjustment purposes from 2.5% in 2004 to 3.6% in 2005.

2003 and 2004. The loss from price-level restatement increased from Ch$4,286 million in 2003 to Ch$7,735 million in 2004, primarily as a result of the increase in the inflation rate used for adjustment purposes from 1.0% in 2003 to 2.5% in 2004.

Income Tax

The statutory corporate income tax rate in Chile was 17% in 2005 and 2004 and 16.5% in 2003. We are also permitted under Law No. 19,396 to deduct dividend payments made to SAOS. In addition, any other payments made by SAOS or its shareholders to the Central Bank in connection with the Central Bank indebtedness are tax deductible. Consequently, our effective tax rate is significantly lower than the statutory corporate income tax rate because of the deduction of 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. Moreover, all real estate taxes paid on properties that are leased to customers are deductible from our taxable income.

2004 and 2005. In 2005, we recorded a tax expense of Ch$21,391 million as compared to a tax expense of Ch$19,010 million in 2004. This increase was primarily attributable to the higher income tax base in 2005 as a result of a 14.1% increase in net income before taxes.

2003 and 2004. In 2004, we recorded a tax expense of Ch$19,010 million as compared to a tax expense of Ch$14,763 million in 2003. This increase was primarily attributable to a higher income tax base in 2004 as a result of a 15.5% increase in net income before taxes, and an increase in the statutory income tax rate from 16.5% in 2003 to 17% in 2004.

Chilean and U.S. GAAP Reconciliation

We prepare our audited consolidated financial statements in accordance with Chilean GAAP, which differs in certain significant respects from U.S. GAAP. See Note 28 to our audited consolidated financial statements for a description of the material differences between Chilean GAAP and U.S. GAAP, as they relate to us and our consolidated subsidiaries, reconciliation to U.S. GAAP of net income and shareholders' equity and a discussion of new accounting rules under U.S. GAAP. The following table sets forth net income and shareholders' equity for the years ended December 31, 2003, 2004 and 2005 under Chilean GAAP and U.S. GAAP:

	Year Ended December 31,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)					
Net income (Chilean GAAP)	Ch$	138,634	Ch$	158,123	Ch$	180,724
Net income (U.S. GAAP)		138,471		152,202		168,830
Shareholders' equity (Chilean GAAP)		738,738		698,817		775,107
Shareholders' equity (U.S. GAAP)	Ch$	1,423,634	Ch$	1,371,948	Ch$	1,429,747

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

- Under Chilean GAAP, the merger was accounted for as a "pooling of interests" on a prospective basis. As such, the historical financial statements for periods prior to the merger are not restated under Chilean GAAP and we are considered to be the surviving entity. Under U.S. GAAP, the merger of the two banks is accounted for as a merger of entities under common control, as 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. Under U.S. GAAP, for periods prior to March 27, 2001, the information presented in our audited consolidated financial statements is that of Banco de A. Edwards, as it had been under Quiñenco S.A.'s control since September 2, 1999.

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

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

- Under Chilean GAAP, allowances for loan losses are calculated according to specific guidelines set by the Chilean Superintendency of Banks. Under U.S. GAAP, allowances for loan losses should be in amounts adequate to cover inherent losses in the loan portfolio at the respective balance sheet dates. If we had applied U.S. GAAP, our net income would have increased by Ch$8,555 million and Ch$(985) million in 2004 and 2005, respectively, and shareholders´ equity would have increased by Ch$39,319 million and Ch$38,334 million in 2004 and 2005, respectively.

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

These differences are explained in greater detail in Note 28 to our audited consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

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

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

- deposits in checking accounts;
- other demand deposits or obligations incurred in the ordinary course of business;
- other deposits unconditionally payable immediately or within a term of less than 30 days; and
- time deposits payable within ten days

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

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

The senior members of our financial division evaluate liquidity by projecting daily cash flows over the following 90 days to verify that adequate liquidity is maintained, in compliance with limits imposed by Chilean banking regulations and those set internally by us.

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,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)					
Net cash provided by (used in) operating activities..........................	Ch$	(121,300)	Ch$	595,496	Ch$	431,020

2004 and 2005. Cash provided by operating activities decreased to Ch$431,020 million in 2005 from Ch$595,496 million in 2004, primarily as a result of a lower decrease in our financial investments, mainly short-term Central Bank securities as we placed a new series of subordinated bonds and 5-year bonds on the local market during 2005, which improved our liquidity and allowed us to reduce our lower-yielding short-term assets.

2003 and 2004. Cash provided by operating activities reached Ch$595,496 million in 2004 compared to cash used in operating activities of Ch$121,300 million in 2003, primarily as a result of a decrease in our financial investments, primarily in short-term Central Bank securities and Chilean financial institutions, due to our issuance of three series of bonds on September 1, 2004, which improved our liquidity and allowed us to reduce our lower-yielding short-term assets. In addition, foreign country-related investments also declined as a result of the decrease in the exchange rate.

	Year Ended December 31,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)					
Net cash used in investing activities..	Ch$	(176,660)	Ch$	(665,806)	Ch$	(1,224,735)

2004 and 2005. Cash used in investing activities increased to Ch$1,224,735 million in 2005 from Ch$665,806 million in 2004 primarily as a result of a 15.0% increase in the volume of our loan portfolio.

2003 and 2004. Cash used in investing activities increased to Ch$665,806 million in 2004 from Ch$176,660 million in 2003 primarily as a result of a 7.4% increase in the volume of our loan portfolio.

	Year Ended December 31,					
	2003		2004		2005	
	(in millions of constant Ch$ as of December 31, 2005)					
Net cash provided by financing activities..	Ch$	490,410	Ch$	102,196	Ch$	568,446

2004 and 2005. The increase in cash provided by financing activities from Ch$102,196 million in 2004 to cash provided by financing activities of Ch$568,446 million in 2005 was primarily attributable to an increase in time deposits and, to a lesser extent, related to an increase in long-term foreign borrowings and to the repurchase of 2.5% of our shares.

2003 and 2004. The decrease in cash provided by financing activities from Ch$490,410 million in 2003 to cash provided by financing activities of Ch$102,196 million in 2004 was primarily attributable to a decrease in investments sold under agreements to repurchase, mortgage finance bonds and foreign borrowings. Additionally, the decrease in net cash provided by financing activities resulted from the purchase of 2.5% of our shares and higher dividends distributed to our shareholders (Ch$135,250 million in 2004 compared to Ch$55,891 million in 2003).

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, 2004			Year Ended December 31, 2005		
	Long-term	Short-term	Total	Long-term	Short-term	Total
	(in millions of constant Ch$ as of December 31, 2005)					
Central Bank Credit lines for renegotiation of loans	Ch$ 1,999	—	Ch$ 1,	Ch$ 1,4	—	Ch$ 1,4
Other Central Bank Borrowings	—	Ch$ 111,5	111,	—	—	—
Mortgage finance bonds	817,288	—	817,	556,5	—	556,5
Bonds	188,050	—	188,	324,7	—	324,7
Subordinated bonds	275,891	—	275,	305,2	—	305,2
Borrowings from domestic financial institutions	—	27,3	27,	—	Ch$ 90,1	90,1
Foreign borrowings	263,986	353,0	616,	647,5	13,9	661,4
Investments sold under agreements to repurchase	—	361,6	361,	—	270,7	270,7
Other obligations	11,488	34,9	46,	1,3	32,4	33,7
Total other interest bearing liabilities	Ch$ 1,558,702	Ch$ 888,4	Ch$ 2,	Ch$ 1,8	Ch$ 407,2	Ch$ 2,2

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 3.19% as of December 31, 2005. The maturities of the outstanding amounts are as follows:

	As of December 31, 2005
	(in millions of constant Ch$ as of December 31, 2005)
Due within 1 year	Ch$ 1,407
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)	1,407
Total short-term (Other Central Bank borrowings)	—
Total Central Bank borrowings	Ch$ 1,407

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 4.07% as of December 31, 2005.

The maturities of outstanding mortgage finance bond amounts as of December 31, 2005 are as follows:

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005)	
Due within 1 year	Ch$	72,128
Due after 1 year but within 2 years		55,128
Due after 2 years but within 3 years		53,566
Due after 3 years but within 4 years		52,419
Due after 4 years but within 5 years		51,023
Due after 5 years		272,240
Total mortgage finance bonds	Ch$	556,504

Bonds

Our bonds are linked to the UF Index and carry an average real annual interest rate of 3.20% as of December 31, 2005, 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, 2005 are as follows:

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005)	
Due within 1 year	Ch$	66,991
Due after 1 year but within 2 years		66,576
Due after 2 years but within 3 years		65,988
Due after 3 years but within 4 years		65,988
Due after 4 years but within 5 years		18,138
Due after 5 years		41,023
Total bonds	Ch$	324,704

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, 2005, the effective real interest rate was 6.60% 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, 2005 the outstanding maturities of the bonds, which are considered long-term, are as follows:

	As of December 31, 2005	
	(in millions of constant Ch$ as of December 31, 2005)	
Due within 1 year	Ch$	31,191
Due after 1 year but within 2 years		24,374
Due after 2 years but within 3 years		24,374
Due after 3 years but within 4 years		24,374
Due after 4 years but within 5 years		24,374
Due after 5 years		176,597
Total subordinated bonds	Ch$	305,284

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

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

Borrowings from domestic financial institutions

Borrowings from domestic financial institutions, which are used to fund our general activities, carry a weighted average annual real interest rate of 4.75% as of December 31, 2005 and have the following outstanding maturities as of December 31, 2005:

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005)	
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		—
Total long-term		—
Total short-term	Ch$	90,160(1)
Total borrowings from domestic financial institutions	Ch$	90,160

(1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2005 had remaining maturities of less than one year.

Foreign borrowings

We have short-term and long-term borrowings from foreign banks. The outstanding maturities of these borrowings as of December 31, 2005 are as follows:

	As of December 31, 2005		
	Syndicated Loan	Other Foreign Borrowings	Total
	(in millions of constant Ch$ as of December 31, 2005)		
Due within 1 year	Ch$ 629	Ch$ 450,149	Ch$ 450,778
Due after 1 year but within 2 years	—	93,243	93,243
Due after 2 years but within 3 years	—	—	—
Due after 3 years but within 4 years	77,132	26,357	103,489
Due after 4 years but within 5 years	—	—	—
Due after 5 years	—	—	—
Total long-term	77,761	569,749	647,510
Total short-term	—	13,983	13,983
Total foreign borrowings	Ch$ 77,761	Ch$ 583,732	Ch$ 661,493

Each of these loans is denominated in foreign currency and is principally used to fund our foreign trade loans and carry an average annual nominal interest rate of 1.40% as of December 31, 2005. The syndicated loan's interest rate is composed of a three month U.S.D. LIBO rate, plus 0.23%.

Other obligations

	As of December 31,	
	2004	2005
	(in millions of constant Ch$ as of December 31, 2005)	
Other long-term obligations:		
Obligations with Chilean government	Ch$ 11,488	Ch$ 1,338
Total other long-term obligations	11,488	1,338
Other short-term obligations	34,973	32,405
Total other obligations	Ch$ 46,461	Ch$ 33,743

As of December 31, 2005, other obligations had the following maturities:

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005)
Due within 1 year	Ch$ 1,338
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	1,338(1)
Total short-term	32,405(1)
Total other obligations	Ch$ 33,743

(1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2005 had remaining maturities of less than one year.

Asset and Liability Management

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

Funding

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2003, 2004 and 2005, in each case together with the related average nominal interest rates paid thereon:

	Year Ended December 31,											
	2003				2004				2005			
	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, 2005, except for percentages)											
Non-interest bearing demand deposits	Ch$	1,9	21.8%	—	Ch$	2,1	23.3%	—	Ch$	2	22.7%	—
Time deposits		3,5	39.7	2.5%		3,5	38.8	2.5%		3	40.8	4.3%
Savings accounts		183,3	2.1	1.7		152,0	1.6	2.2		139	1.4	3.8
Mortgage finance bonds		1,0	12.2	7.4		946,9	10.2	8.2		616	6.4	8.2
Central Bank borrowings		12,3	0.1	3.5		12,8	0.1	2.9		31	0.3	3.3
Contingent liabilities		419,2	4.7	—		495,5	5.3	—		616	6.4	—
Other non-interest bearing liabilities		206,9	2.3	—		309,2	3.3	—		363	3.8	—
Other interest bearing liabilities		1,5	17.1	2.9%		1,6	17.4	3.3%		1	18.2	4.9%
Total liabilities	Ch$	8,9	100.0%		Ch$	9,2	100.0%		Ch$	9	100.0%	

Our most important source of funding is our customer deposits, which consist primarily of peso-denominated non-interest bearing demand deposits and peso- and UF-denominated interest bearing time deposits. Non-interest bearing demand deposits represented 22.7% of our average total liabilities in 2005, and are our least expensive source of funding. Time deposits and mortgage finance bonds represented 47.2% of our average liabilities in 2005 and 49.0% in 2004, respectively.

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

A sound liquidity strategy assures the funding of business opportunities and the meeting of financial obligations when they are due. To accomplish these goals, we manage both the liability side as well as the asset side of our balance sheet and have a contingency funding plan for maintaining liquidity under adverse market conditions.

On the liability side, two kinds of limits control the diversification of our funding sources. The first limit establishes that: (1) the total deposits and repurchase agreements taken from any one institutional investor do not exceed a certain percentage of current liabilities; and (2) the sum of deposits and repurchase agreements taken from all institutional investors do not exceed a certain percentage of current liabilities. The second limit is a 30-day liquidity ratio, which limits volatile liabilities to a percentage of our liquid assets. Liquid assets are composed of low risk loans that are due within 30 days and short-term financial instruments.

On the asset side, we maintain a short-term financial investment portfolio composed of investments with a high degree of liquidity due to the depth of the market and the low "bid-offer" spreads.

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$941,949 million (U.S.$1,832 million) and Ch$1,232,493 million (U.S.$2,397 million) as of December 31, 2004 and 2005, respectively. The amounts of subscribed leasing contracts were Ch$57,536 million (U.S.$112 million) and Ch$61,436 million (U.S.$119 million) as of December 31, 2004 and 2005, respectively.

Our interest rate swap agreements are treated as off balance sheet financial instruments and the net interest effect, which is the difference between interest income and interest expense arising from such agreements, is recorded in net income in the period in which such differences originate. However, interest rate and cross-currency swaps, which are entered into in order to hedge the foreign investment portfolio, are recorded at their estimated fair market values. See Note 13 to our audited financial statements.

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

Financial Guarantees

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

	As of December 31, 2005 (in millions of constant Ch$ as of December 31, 2005)	
Performance bonds	Ch$	539,385
Foreign office guarantees		21,976
Standby letters of credit		11,074
Total	Ch$	572,435

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.

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, 2005)			
Performance bonds	Ch$ 354,	Ch$ 158,	Ch$ 22,	Ch$ 3,2	Ch$ 539,
Foreign office guarantees	21,	—	—	—	21,
Standby letters of credit	8,	1,	195	—	11,
Total	Ch$ 385,	Ch$ 160,	Ch$ 23,	Ch$ 3,2	Ch$ 572,

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, 2005, the scheduled maturities of our contractual obligations, including accrued interest, were as follows:

Contractual Obligations	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, 2005)			
Deposit and other term liabilities[(1)]	Ch$ 4,2	Ch$ 198,1	—	—	Ch$ 4,4
Mortgage finance bonds	72,1	108,	Ch$ 103,4	Ch$ 272,	556,5
Bonds issued	98,1	181,	132,8	217,	629,9
Central Bank credit lines from renegotiations of loans	1,4	—	—	—	1,4
Borrowings from domestic financial institutions	90,1	—	—	—	90,1
Foreign borrowings	464,7	93,2	103,4	—	661,4
Other obligations	33,7	—	—	—	33,7
Lease contracts	5,7	9,	5,7	3,	23,8
Services contracts	98,4	95,1	81,6	1,	1,8
Investments sold under agreements to repurchase	270,7	—	—	—	270,7
Total	Ch$ 5,4	Ch$ 685,	Ch$ 427,2	Ch$ 2,	Ch$ 8,5

(1) Excludes demand accounts and savings accounts.

As of December 31, 2005, 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, 2005)			
Commercial Commitments					
Letters of Credit	Ch$ 151,4	—	—	—	Ch$ 151,472
Guarantees	385,2	Ch$ 160,7	Ch$ 23,0	Ch$ 3,	572,435
Total other commercial commitments	Ch$ 536,7	Ch$ 160,7	Ch$ 23,0	Ch$ 3,	Ch$ 723,907

Item 6. Directors, Senior Management and Employees

DIRECTORS AND SENIOR MANAGEMENT

Directors

Our administration is conducted by our board of directors, which, in accordance with our *estatutos*, or bylaws, consists of eleven directors and two alternate directors. The entire board of directors is elected every three years. Our current board of directors was elected in March 2005 and their term expires in March 2008. Our alternate directors were appointed in March 2006.

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:

Director	Position	Age
Fernando Cañas B.	Chairman	56
Andronico Luksic C.	Vice chairman	52
Jorge Awad M.	Director	59
Jacob Ergas E.	Director	71
Thomas Fürst F.	Director	75
Guillermo Luksic C.	Director	50
Rodrigo Manubens M.	Director	47
Gonzalo Menendez D.	Director	57
Maximo Pacheco M.	Director	53
Francisco Perez M.	Director	48
Segismundo Schulin-Zeuthen S.	Director	61
Jorge Diaz V.	Alternate director	62
Jorge Ergas H.	Alternate director	37

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

Andronico Luksic C. was elected as a Director and Vice Chairman of our board of directors in 2005, and was previously a Director and Vice Chairman of our board of directors from 2002 to 2004. He is a member of the Advisory Committee to the David Rockefeller Center for Latin American Studies at Harvard University, the Latin American Advisory Committee at Harvard Business School, the Board of Trustees to Babson College, the Advisory Board of the Panama Canal Authority and the Asia-Pacific Economic Cooperation Business Advisory Council. Mr. Luksic is Vice Chairman of Quiñenco S.A. and a member of the board of directors at Compañia Cervecerias Unidas S.A., Manufacturas de Cobre Madeco S.A., Industria Nacional de Alimentos S.A., SOFOFA and the Sociedad de Fomento Fabril and he is a Trustee of the Chile-Pacific Foundation. He was Chairman of the board of directors of Banco O'Higgins and subsequently Chairman of the board of directors of Banco Santiago until May 1999. Mr. Luksic was Director and Chairman of the board of directors of Banco de A. Edwards from September 1999 to December 2001. Mr. Luksic is a brother of Mr. Guillermo Luksic.

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

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

Thomas G. Fürst has been a member of our board of directors since 2004. He is also member of the board of directors of Banchile Administradora General de Fondos S.A. Previously, Mr. Fürst was vice chairman of the board of directors at Compañia Cervecerias 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 Compañia Industrial Cerveceria S.A. (CICSA). Mr. Fürst was a founder and member of the board of directors of Parque Arauco and he is partner and member of the board of directors of Grupo Plaza. Presently, he is a member of the board of directors of Plaza Vespucio S.A., Plaza Oeste S.A., Plaza del Trebol S.A. (Concepcion), Plaza La Serena S.A. (La Serena), Plaza Tobalaba, Plaza Los Angeles (Los Angeles), Plaza Antofagasta (Antofagasta), and Banchile Administradora General de Fondos S.A. Mr. Fürst studied civil construction at Pontificia Universidad Catolica de Chile.

Guillermo Luksic C. has been a member of our board of directors since 2001 and was previously the Vice Chairman of our board of directors between March 2001 and March 2002. Mr. Luksic is Chairman of the board of directors of Quiñenco S.A., Compañia Cervecerias Unidas S.A., Viña San Pedro S.A., CNT Telefonica del Sur S.A. and Madeco S.A. Since 2005, he also serves as a member of the board of directors of Antofagasta plc. Mr. Luksic is an active member of the Advisory Council of Fundacion Paz Ciudadana and the Center of Public Studies and a member of the board of directors of Universidad Finis Terrae. Mr. Luksic is a brother of Mr. Andronico Luksic.

Rodrigo Manubens M. has been a member of our board of directors since 2001. Mr. Manubens was a member of the board of directors of Banco de A. Edwards from 1999 until 2001. From 1985 to 1999, Mr.

Manubens was a member of the board of directors of Banco O'Higgins and continued in that role when it merged into Banco Santiago. From 1995 to 1999 he was chairman of Banco Tornquist in Argentina and a member of the board of directors of Banco Sur in Peru and Banco Asuncion in Paraguay. Mr. Manubens also served as a director and chairman of Endesa Chile S.A. He is also chairman of Banchile Compañia de Seguros de Vida S.A. and Banchile Corredores de Bolsa S.A., a member of the board of directors of Banchile Factoring S.A. and a member of the executive committee of Banchile Corredores de Seguros Limitada. Mr. Manubens holds a degree in business from Universidad Adolfo Ibañez and a Master's of Science from the London School of Economics and Political Science.

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

Maximo Pacheco M. has been a member of our board of directors since 2001. Mr. Pacheco is Senior Vice President of International Paper Co. and Executive President of International Paper in Brazil. Mr. Pacheco holds a degree in commercial engineering from the Universidad de Chile.

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

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

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

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

Senior Management

Our current executive officers are as follows:

Executive Officers	Position	Age
Pablo Granifo L.	Chief executive officer	47
Arturo Concha U.	Manager — Financial division	52
Nelson Rojas P.	General legal counsel	52
Julio Guzman H.	Manager — Corporate and international division	52
Mauricio Baeza L.	Manager — Credit risk division	43
Alejandro Herrera A.	Manager — Individual banking and branches	49
Marcelo Caracci L.	Manager — Operations and technology division	56
Jennie E. Coleman A.	Manager — Human resources division	52
Arturo Tagle Q.	Manager — Planning and research division	47
Gonzalo Rios D.	Manager — Marketing division	37
Pedro Bolados M.	Manager — Risk control division	48
Eduardo Ebensperger O.	Manager — Middle market division	40
Juan Cooper A.	Manager — Banco Credichile division	45
Vivianne Sarniguet K.	Manager — Global compliance division	40

Pablo Granifo L. was appointed our chief executive officer in 2001. 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 a member of the board of directors of Banchile Administradora General de Fondos S.A., Banchile Asesoria Financiera S.A., Socofin S.A., Banchile Securitizadora S.A. and Banchile Factoring S.A. He is also a director of Banchile Trade Services Limited and a member of the executive committee of Banchile Corredores de Seguros Limitada. He holds a degree in business from the Pontificia Universidad Catolica de Chile.

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

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

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

Mauricio Baeza L. has been the manager of the credit risk division since December 2005. Mr. Baeza joined us in 1997 and was manager of the risk division during 2001 in Banco de A. Edwards. He was Risk manager at Banco Santiago from 1993 to 1997 and member of the board of directors of Santiago Administradora de Fondos de Inversion. He is also a member of the investment committee of Banchile Fondo Inmobiliario. He holds a degree in civil engineering from the Pontificia Universidad Catolica de Chile.

Alejandro Herrera A. has been the manager of the individual banking and branches division since 2002. He has served as the manager of the individual banking and branches division at Banco de A. Edwards from 2000 to 2001 and at Banco Sudamericano from 1996 to 1999, as the chief executive officer of

Administradora de Fondos Mutuos Santiago S.A. from 1994 to 1995 and as branches manager at Banco Santiago for the Santiago region. Mr. Herrera is the chairman of the board of directors of Promarket S.A. He is also a member of the board of directors of Banchile Administradora General de Fondos S.A., Banchile Asesoria Financiera S.A., Banchile Securitizadora S.A. and Socofin S.A. and a member of the executive committee of Banchile Corredores de Seguros Limitada. He holds a degree in business from the Pontificia Universidad Catolica de Valparaiso.

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

Jennie E. Coleman A. joined us as manager of the human resources division in March 2003. Previously, she was the manager of the human resources division, manager of organizational development and training chief executive at Banco Santiago, where she worked for more than 23 years. Mrs. Coleman holds a degree in public administration from the Universidad de Chile.

Arturo Tagle Q. has been the manager of the planning and research division since 2002. Mr. Tagle joined us in 1995**.** He was general manager of the Chilean Bankers Association from 1990 to 1994 and Director of Research at the Chilean Superintendency of Banks from 1984 to 1989. Mr. Tagle is the chief executive officer of Sociedad Matriz del Banco de Chile S.A. and SAOS. He holds a degree in commercial engineering from the Pontificia Universidad Catolica de Chile and a master's degree in business administration from the University of Chicago.

Gonzalo Rios D. has been the manager of the marketing division since November 2005. He was the marketing manager of Falabella´s financial retail division from 2002 to 2005 and manager of non-store retail operations of Falabella Argentina from 2000 to 2002. He was a business consultant at McKinsey & Company from 1997 to 2000 and previously worked for IBM Argentina as a sales manager. Mr. Rios is a member of the board of directors of Promarket S.A. and member of the executive committee of Banchile Corredores de Seguros Limitada. He holds a degree in electrical engineering from Instituto Tecnologico de Buenos Aires and a MBA from the Massachusetts Institute of Technology.

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

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

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

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

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

COMPENSATION

The table below presents the amount of compensation, as established by our shareholders, to the members of our board of directors for the year ended December 31, 2005. These amounts include remuneration for services, fees for attendance at board meetings, committee meetings and subsidiary board meetings and consulting and travel expenses.

Name of Director	Remuneration	Fees for attendance at board meetings	Fees for attendance at committee meetings and subsidiary board meetings	Consulting	Total
	(in millions of constant Ch$ as of December 31, 2005)				
Fernando Cañas B. (1)	Ch$ 288.6	Ch$ 38.8	Ch$ 169.0	–	Ch$ 496.4
Andronico Luksic C.	126.3	15.8	–	–	142.1
Jorge Awad M.	42.1	25.4	91.8	–	159.3
Jacob Ergas E.	42.1	23.6	66.6	–	132.3
Thomas Fürst F.	42.1	25.4	57.1	–	124.6
Guillermo Luksic C.	42.1	14.9	5.2	–	62.2
Rodrigo Manubens M.	42.1	22.0	89.0	Ch$ 407.0	560.1
Gonzalo Menendez D.	42.1	28.9	128.8	–	199.8
Maximo Pacheco M.	42.1	27.2	2.6	–	71.9
Francisco Perez M.	42.1	24.5	55.5	–	122.1
Segismundo Schulin-Zeuthen S.	59.7	33.1	88.0	–	180.8
Edmundo Eluchans U.	42.1	22.7	33.1	–	97.9
Jorge Ergas H. (2)	42.1	21.0	38.7	–	101.8
Jorge Diaz V. (3)	3.5	1.7	1.7	–	6.9
Maximo Silva B. (4)	3.8	6.0	17.3	–	27.1
Total	Ch$ 902.9	Ch$ 331.0	Ch$ 844.4	Ch$ 407.0	Ch$ 2,485.3

(1) Mr. Cañas was elected as a director in 2005.
(2) Mr. Ergas was elected as an alternate director in 2006.
(3) Mr. Diaz was elected as an alternate director in 2006.
(4) Mr. Silva is no longer a member of our board of directors.

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, 2005, the aggregate amount of compensation paid to our senior management, including the senior management of our subsidiaries, was Ch$5,049 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, 2005, no amounts were set aside or accrued by us to provide pension, retirement or similar benefits for our directors and officers.

Indebtedness of Directors and Executive Officers

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

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

Chilean law contains additional provisions restricting transactions with affiliates not involving directors or executive officers. The Chilean Corporations Law requires that our transactions with related parties be on market terms. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is to be entered into. Directors of companies that violate this provision are liable for losses resulting from such violation. As disclosed in Note 16 to our audited consolidated financial statements, we incurred an aggregate of Ch$11,458 million in expenses and Ch$112 million in income from transactions other than loans with related parties in 2005**.**

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$122,924 million in loans to, including Ch$51,598 million in collateral pledged by, related parties as of December 31, 2005. See Note 16 to our audited consolidated financial statements for details concerning these transactions.

BOARD PRACTICES

Governance Practices

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

The Directors/Audit Committee

Prior to March 24, 2005, the directors committee and audit committee were separate committees performing independent functions for the board of directors. On March 24, 2005, the board of directors resolved to merge the directors committee with the audit committee forming the directors/audit committee. The committee's objectives are to seek the efficiency, maintenance, application and functioning of our internal control systems and compliance with the applicable rules and procedures governing our business; to identify our business risks; to supervise the functions of the risk control division, ensuring its independence from management; to supervise the functions of the global compliance division; to serve as link and coordinator of tasks between the internal audit work and the independent auditors and to act as a link with our board of directors.

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

- Jorge Awad M. (chair and financial expert);
- Gonzalo Menendez D.; and
- Thomas Fürst F.

For matters required to be addressed by our audit committee, we have two voting members and one non-voting member. For matters required to be addressed by our directors committee, we have three voting members. Members serve on the committee for the same term that they serve as directors and may be re-elected. Under Chilean law, the majority of the members of a company's directors committee must be independent. Additionally, under applicable resolutions from the Chilean Superintendency of Banks, the board of directors must set standards, based on international independence criteria, for determining audit committee member independence. Mr. Jorge Awad M. and Mr. Thomas Fürst F. satisfy the independence requirements under both Chilean law and Rule 10A-3 under the Exchange Act and are full voting members of our directors/audit committee. Mr. Gonzalo Menendez D. is exempt from the independence requirements of Rule 10A-3 pursuant to an exemption in Rule 10A-3(b)(1)(iv)(D). Under that exemption, he is a non-voting member of our directors/audit committee with respect to all matters required to be addressed by our audit committee under U.S. federal securities laws. We do not believe that reliance on the exemption in Rule 10A-3(b)(1)(iv)(D) would materially adversely affect the ability of our directors/audit committee to act independently and perform its duties.

The directors/audit committee meets monthly and no less frequently than eight times a year, and its budget is approved annually at the ordinary shareholders' meeting. The directors/audit committee satisfies the applicable requirements of the Chilean Superintendency of Banks and operates pursuant to a charter document. The Chilean Superintendency of Banks recommends that at least one of the members of the committee be experienced with respect to the accounting procedures and financial aspects of banking operations. The committee submits a report regarding its activities to our board of directors after each directors/audit committee meeting, and presents an annual report at our annual shareholder's meeting. As established in the committee's bylaws, the chief executive officer, the general legal counsel and the manager of the risk control division also attend meetings. A partner of the independent auditors firm and other persons that the committee may invite for one or more meetings may also attend meetings.

Directors/Audit Committee Duties.

The committee may appoint independent personnel to carry out specific duties. The duties of the directors/audit committee include:

- reviewing and approving all related party transactions;
- reviewing annual and interim financial statements and informing the board of directors of the results of such reviews;
- reviewing the audit reports prepared by our internal comptroller and supervising our controlling divisions;

- reviewing the reports, procedures and work of our external auditors and interacting with rating agencies;
- selecting external auditors and rating agencies to be proposed to the board of directors;
- coordinating with and delegating or recommending tasks to our internal and external auditors;
- discussing the effectiveness and reliability of internal control procedures;
- informing the board of directors of any change in accounting principles and its effects;
- discussing the compensation structure and self-evaluation process for senior management;
- reviewing and discussing money-laundering procedures, prevention, policies and compliance;
- reviewing complaints presented by our clients to the Chilean Superintendency of Banks;
- reviewing and deliberating on issues related to conflicts of interests;
- investigating suspected fraudulent activities;
- reviewing the inspection reports, instructions and presentations from the Chilean Superintendency of Banks;
- reviewing the performance of information systems, their efficiency, reliability and utility in decision making;
- intervening in any other situation where intervention is warranted in the committee's discretion; and
- to be informed about the compliance of institutional policies related to the due fulfillment with laws, regulations and internal regulations that must fulfill the company.

Portfolio Committee

The main function of the portfolio committee is to inform the board of directors of changes in the composition and risk of our loan portfolio from a global perspective and from a sector point of view, and also segmented by lines of business. The committee closely reviews the performance of our principal debtors, overdue loan ratios, past-due loan indicators, write-offs and allowances for loan losses.

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

This committee meets on a monthly basis and is comprised of five directors, in addition to our chief executive officer and the manager of our credit risk division.

Credit Committee

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

Finance and International Committee

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

- defining market risk policies, procedures and limits;
- control of market risk limits, liquidity and other regulatory financial limits. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk" and "Item 4. Information on the Company—Regulation and Supervision;"
- new operations and financial businesses;
- monitoring positions and related market risks;
- control of counterparty exposure in financial derivatives;
- analysis of our current and forecasted financial structure;
- allocating our capital to different lines of business;
- defining policies setting the cost of funds; and
- financial management of foreign branches.

The Disclosure Committee

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

Corporate Risk Management Committee

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

- to centralize and coordinate the activities of corporate risk management;

- to implement an integrated risk management scheme throughout the organization;
- to provide information to our board of directors to optimize use of capital;
- to inform the directors/audit committee, the finance and international committee, the portfolio committee and management of risk matters; and
- to manage our relationships with regulatory entities.

Global Compliance Division

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

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

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

Anti-Money Laundering and Terrorism Financing Committee

Banks must have an Anti-Money Laundering and Terrorism Financing Committee. The Chilean Superintendency of Banks recommends that at least one director, the chief executive officer, at least one area head, the legal counsel and the compliance officer form such committee. Responsibilities of this committee include:

- planning and coordination of compliance activities related to prevention matters;
- being informed of compliance officer activities, including unusual transactions; and
- deciding on proposed improvements to control measures.

In compliance with this requirement, our Anti-Money Laundering and Terrorism Financing Committee was formed April 21, 2006.

NYSE Corporate Governance Comparison

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

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

NYSE Standards	Our Corporate Governance Practice
***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*	Pursuant to the General Banking Law; we are not required to make a determination as to the independence of our directors. Pursuant to the Chilean Corporations Law, we must determine whether the members of our directors/audit committee (all of whom are members of our board of directors) are independent. The definition of independence applicable to us pursuant to the Chilean Corporations Law differs in certain respects from the definition applicable to U.S. issuers under the NYSE rules. Under the Chilean Corporations Law, a director is deemed to be an independent member of the directors/audit committee if such member would have been elected as a director at the shareholders meeting after excluding the votes of any controller or party related to it. Under the regulations of the Chilean Superintendency of Banks, members of the audit committee must satisfy international independence criteria.
***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*	There is no similar requirement under our bylaws or under applicable Chilean law.
***Audit committee**. Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act, and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07*	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."

NYSE Standards	**Our Corporate Governance Practice**
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*	We are not required to have, and do not have, a nominating/corporate governance committee.
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*	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. *Equity compensation plans require shareholder approval, subject to limited exemptions.*	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*	We have adopted a code of ethics applicable to all of our directors and executive officers, which was filed as an exhibit to our annual report on Form 20-F for year 2004. 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.

EMPLOYEES

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

	As of December 31,		
	2003	2004	2005
Banco de Chile	6,093	6,361	6,745
Overseas branches and representative offices	47	52	84
Subsidiaries	2,993	2,952	3,328
Total	9,133	9,365	10,157

At December 31, 2005, we had 10,157 employees (on a consolidated basis) of which approximately 2,058, or 20.3%, were unionized. All management positions are held by non-unionized employees. We are party to four collective bargaining agreements (one of which we assumed as part of the merger with Banco de A. Edwards) covering our unionized employees. These collective bargaining agreements were signed in December 2004 and expire in December 2008. We have not experienced a strike in the last 10 years and consider relations with our employees to be satisfactory.

We have a comprehensive personnel training and development program that includes internal courses on operational, technical and commercial subjects as well as participation in external seminars. In 2005, the total cost of training programs was approximately 0.84% of total personnel salaries and expense. We do not maintain any pension or retirement programs for the vast majority of our employees. We do, however, pay certain long-serving key employees a severance payment upon retirement. Although we have, in the past, provided productivity bonuses to individual employees on a discretionary basis, we do not maintain a formal profit-sharing plan.

SHARE OWNERSHIP

Mr. Andronico Luksic and Mr. Guillermo Luksic, members of our board of directors since March 2002 and March 2001, respectively, together with members of their family, control Quiñenco S.A. As of May 11, 2006, Quiñenco S.A. owns 20.72% of our outstanding shares (directly and indirectly through LQ Inversiones Financieras S.A.). Additionally, Quiñenco S.A. holds 52.15% of the voting rights in Banco de Chile (directly and indirectly through shares of SM-Chile S.A. that are owned by LQ Inversiones Financieras S.A. and Inversiones LQ-SM S.A.).

Mr. Jacob Ergas, a member of our board of directors since January 1, 2002, controls Ever I Bae S.A., Ever Chile S.A. and Inversiones Aspen Limitada. As of May 11, 2006, these holding companies own 2.65%, 2.30% and 1.62% of our outstanding shares, respectively. Mr. Ergas holds 6.58% of the voting rights in Banco de Chile through these holding companies.

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

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

Item 7. Major Shareholders and Related Party Transactions

MAJOR SHAREHOLDERS

The following table sets forth certain information regarding the ownership of outstanding shares as of May 11, 2006 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.

Name	Amount Owned	Percentage[1]
Quiñenco S.A. (2)	14,307,782,107	20.72%
Jacob Ergas (3)	4,544,909,033	6.58%
SM-Chile S.A.	40,732,213,763	59.00%
Directors and executive officers as a group (27 persons)	18,737,067	0.03%

(1) Percentages are based on 69,037,564,665 common shares outstanding as of May 11, 2006.
(2) As of December 31, 2005, members of the Luksic family or their affiliates beneficially owned 82.8% of the common shares of Quiñenco S.A. Mr. Andronico Luksic and Mr. Guillermo Luksic are members of our board of directors.
(3) Mr. Jacob Ergas, a member of our board of directors, holds his shares through Ever I Bae S.A., Ever Chile S.A. and Inversiones Aspen Ltda., which are holding companies under his control.

RELATED PARTY TRANSACTIONS

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

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

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

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

- our collection of insurance premiums from our clients for remittance to Banchile Seguros de Vida S.A.,
- Banchile Seguros de Vida S.A.'s authorization to use our "Banchile" brand name,
- Banchile Seguros de Vida S.A.'s access to our web page,
- Banchile Seguros de Vida S.A.'s preferential right to offer life insurance to our individual borrowers and to use our distribution channels to offer general insurance to its customer base, and
- life insurance that we acquire from Banchile Seguros de Vida S.A. for our borrowers.

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

On December 28, 2005 we entered into an agreement with Banchile Seguros de Vida S.A., an affiliated insurance brokerage company, setting forth the specific terms of the life insurance policies associated with customer loans contracted by us for its borrower portfolio on behalf of the borrowers. The conditions of this agreement are an integral part of all the life insurance policies that we offer our borrowers. The agreement is effective until December 31, 2006, and is automatically renewable for successive one-year periods through December 31, 2008. All the conditions contained in the agreement were previously reviewed and approved by our board of directors.

Loans to Related Parties

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

Item 8. Financial Information

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Audited Consolidated Financial Statements

Please refer to "Item 18. Financial Statements."

Legal Proceedings

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

On November 30, 2005, we were served with a civil claim filed by Fundacion Presidente Allende, an entity organized in Spain, claiming compensatory damages in excess of U.S.$7 million and punitive damages of U.S.$100 million for harm allegedly suffered as a result of our alleged assistance to former Chilean President Augusto Pinochet in concealing his assets. Although we intend to contest these claims, no assurances can be given about the outcome or timing of these claims.

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

On October 12, 2005, we entered into agreements with the OCC, and separately with the Financial Crimes Enforcement Network, requiring a U.S.$3 million civil penalty to resolve allegations related to the Bank Secrecy Act, anti-money laundering compliance and related matters. See Note 29 to our audited consolidated financial statements.

Dividends

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

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

We currently have one class of capital shares. In March, 2006, we paid a nominal dividend of Ch$ 1.8582 per share.

During an extraordinary shareholders meeting held on March 23, 2006, our shareholders resolved to pay a portion of our 2005 dividend in shares. In order to do so, our shareholders resolved to issue 957,781,060 new fully paid-in shares. On April 27, 2006, our board of directors agreed to distribute such new fully paid-in shares on May 11, 2006. On May 11, 2006, our shareholders that were shareholders of record on May 5, 2006, received new fully paid-in shares at a ratio of 0.02461 new shares for each share held on May 5, 2006. As a consequence of the issuance of the new fully paid-in shares, as of May 11, 2006, we had 69,037,564,665 shares outstanding.

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,					
	2001	2002	2003	2004	2005	2005
	(in constant Ch$ as of December 31, 2005, except for percentages)					(in U.S.$)
Dividend payout ratio(1)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Dividend per common share(2)	2.07	2.15	0.83	2.05	2.40	0.0047
Dividend per F shares(2)(3)		0.48				
Dividend per Banco de A. Edwards shares(2)	0.24					

(1) Dividend payout ratio is calculated by dividing the amount of dividends paid by the earnings per share of the prior year.
(2) Dividends per share are calculated by dividing the amount of the dividend paid by the number of shares outstanding, excluding shares repurchased through the share repurchase program described elsewhere in this document.
(3) As part of our merger with Banco de A. Edwards, Banco de A. Edwards shareholders received F shares of Banco de Chile. The F shares had all of the same rights as our common stock, except that they entitled holders to receive dividends in 2002 with respect to Banco de A. Edwards' 2001 income. Once these dividends were declared and paid, the F shares automatically converted on a one-for-one basis into shares of our common stock. Accordingly, the F shares no longer exist.

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

SIGNIFICANT CHANGES

No significant changes in our financial condition have occurred since the date of the most recent audited consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

Nature of Trading Market

Shares of our common stock are traded on the Chilean stock exchanges. They have been listed on the Santiago Stock Exchange since 1894, on the Electronic Stock Exchange since 1989 and on the Valparaiso Stock Exchange since 1894. The Santiago Stock Exchange is the principal trading market for our shares.

The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The Santiago Stock Exchange, which is Chile's principal exchange, had a market capitalization of approximately U.S.$135.9 billion as of December 31, 2005 and an average monthly trading volume of approximately U.S.$ 1,722 million for 2005. 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, 2005, 298 series of shares were listed on the Santiago Stock Exchange.

The Santiago Stock Exchange accounts for approximately 81.9% of all amounts traded in Chile. The ten largest companies in terms of market capitalization represented, as of December 31, 2005, approximately 45.6% of the Santiago Stock Exchange's aggregate market capitalization and during 2005 accounted for approximately 31.1% of its total volume. During 2005, 22.1% of the companies listed on the Santiago Stock Exchange had their shares traded on an average of 70% or more of the exchange's trading days. Approximately 16.6% 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 1.5% of equity is traded on the Valparaiso Stock Exchange.

ADSs, each representing 600 shares of common stock, without nominal (par) value, have been listed on the NYSE since January 2, 2002 under the symbol "BCH." JPMorgan Chase Bank is our depositary for purposes of issuing the ADRs evidencing our ADSs. As of December 31, 2005, a maximum of 875,762 ADSs were outstanding (equivalent to 525,457,200 shares of common stock or 0.77% of the total number of issued shares of common stock). Since certain of our ADSs are held by brokers or other nominees, the number of direct record holders in the United States may not be fully indicative of the number of direct beneficial owners in the United States or of where the direct beneficial owners of such shares are resident.

We listed our shares on Latibex, and trading of our shares started on that exchange on October 8, 2002 under the code XBCH, grouped in trading units of 600 shares. In addition, since December 20, 2002, our shares are listed on the LSE.

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

	Santiago Stock Exchange		Electronic Stock Exchange		Valparaiso Stock Exchange	
	Common Stock		Common Stock		Common Stock	
	High	Low	High	Low	High	Low
	(Ch$ per share)(1)		(Ch$ per share)(1)		(Ch$ per share)(1)	
Annual Price History						
2001	Ch$ 28.0	Ch$21.7	Ch$ 28.0	Ch$ 21.6	Ch$ 28.0	Ch$ 21.6
2002	26.0	16.8	25.2	16.5	25.0	17.0
2003	32.0	19.2	32.0	19.2	32.0	20.3
2004	36.8	26.5	36.8	26.0	36.8	26.5
2005	37.7	32.0	38.0	32.0	38.8	30.0
Quarterly Price History						
2004						
1st Quarter	32.0	26.5	32.0	26.0	31.9	26.5
2nd Quarter	31.8	28.6	31.9	28.5	31.9	26.5
3rd Quarter	35.8	31.7	35.8	31.7	36.0	31.8
4th Quarter	36.8	34.0	36.8	34.0	36.8	34.3
2005						
1st Quarter	37.7	32.6	38.0	32.3	38.0	32.5
2nd Quarter	34.0	32.0	34.2	32.0	34.0	30.0
3rd Quarter	36.3	34.0	36.4	33.8	36.0	33.9
4th Quarter	36.8	34.0	37.0	33.5	38.8	34.3
2006						
1st Quarter	37.9	34.6	38.1	34.6	37.9	34.6
Monthly Price History						
December 2005	36.0	34.0	36.5	34.2	35.9	34.5
January 2006	37.5	34.6	38.0	34.6	37.8	34.6
February 2006	37.9	37.0	37.9	36.4	37.9	37.0
March 2006	37.8	35.0	38.1	35.0	37.8	35.1
April 2006	35.0	33.8	35.7	33.6	35.0	33.8
May 2006	34.9	32.2	34.8	31.4	34.6	32.0

Sources: Santiago Stock Exchange, Electronic Stock Exchange, Valparaiso Stock Exchange—Official Quotation Bulletin.

(1) Pesos per share reflect nominal price at trade date.

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(1)		Latibex Trading Units(2)	
	High	Low	High	Low
	(U.S.$ per ADS)		(Euros per Trading Unit)	
Annual Price History				
2005	U.S.$42.75	U.S.$32.97	€ 36.00	€ 25.60
Quarterly Price History				
2005				
1st Quarter	39.40	32.97	29.88	25.60
2nd Quarter	35.85	33.25	29.25	25.80
3rd Quarter	42.75	34.85	34.20	28.80
4th Quarter	42.40	38.30	36.00	32.26
2006				
1st Quarter	44.40	38.95	37.20	32.40
Monthly Price History				
December 2005	42.40	40.00	36.00	33.00
January 2006	43.50	38.95	35.40	32.40
February 2006	44.40	41.59	37.20	34.50
March 2006	44.00	39.00	36.74	32.70
April 2006	41.25	39.05	33.35	32.10
May 2006	41.30	35.70	32.10	28.20

Sources: NYSE and Latibex—Official Quotation Bulletin.
(1) One ADS represents 600 shares of common stock.
(2) One Trading Unit represents 600 shares of common stock.

Item 10. Additional Information

MEMORANDUM AND ARTICLES OF ASSOCIATION

Set forth below is a brief summary of the significant provisions of our bylaws, or *estatutos* and Chilean law. This description contains all material information concerning our shares, but does not purport to be complete and is qualified in its entirety by reference to our *estatutos* (a copy of which has been incorporated by reference into this annual report), the General Banking Law, the Chilean Corporations Law and the Securities Market Law. For a description of the provisions of our *estatutos* related to our board of directors and our audit committee, see "Item 6. Directors, Senior Management and Employees" and for those related to our dividends, see "Item 8. Financial Information—Consolidated Statements and Other Financial Information—Dividends."

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 is currently one outstanding series of our capital stock. As of May 11, 2006, we have a total of 69,037,564,665 outstanding shares. All of our shares are fully subscribed and paid and there are no legal restrictions on the payment of dividends from our net income, except that we may only pay a single dividend per year (*i.e.*, interim dividends are not permitted). Chilean public corporations are generally required to distribute at least 30% of their earnings as dividends, but a bank is permitted to distribute less than such minimum amount in any given year if the holders of at least two-thirds of the bank's outstanding stock so determine. All of our shares have full voting rights. As part of our merger with Banco de A. Edwards, Banco de A. Edwards shareholders received F shares of Banco de Chile. The F shares had all of the same rights as our common stock, except that they entitled holders to receive dividends in 2002 with respect to Banco de A. Edwards' 2001 income. Once these dividends were declared and paid, the F shares automatically converted on a one-for-one basis into shares of our common stock. Accordingly, the F shares no longer exist.

Under Chilean law, the shareholders of a company, acting at an extraordinary shareholders' meeting, have the power to authorize an increase in the company's capital. When an investor subscribes for issued shares, the shares are registered in such investor's name, even if not paid for, and the investor is treated as a shareholder for all purposes except with regard to receipt of dividends and the return of capital. The investor becomes eligible to receive dividends or the return of capital once it has paid for the shares; if it has paid for only a portion of such shares, it is entitled to reserve a corresponding pro-rata portion of the dividends declared with respect to such shares unless the company's bylaws provide otherwise. If an investor does not pay for shares for which it has subscribed on or prior to the date agreed upon for payment, the company is entitled under Chilean law to auction the shares on the stock exchange and collect the difference, if any, between the subscription price and the auction proceeds. However, until such shares are sold at auction, the subscriber continues to exercise all the rights of a shareholder (except the right to receive dividends or the return of capital). In the case of banks, authorized shares and issued shares that have not been paid for within the period fixed for their payment by the Chilean Superintendency of Banks are cancelled and are no longer available for issuance by the company.

The Chilean Corporations Law provides that the purchaser of shares of a company implicitly accepts its bylaws and any agreements adopted at shareholders' meetings.

Ownership Restrictions

Under the Securities Market Law and the regulations of the Chilean Superintendency of Banks, shareholders of open stock corporations are required to report the following to the Chilean Superintendency of Securities and Insurance and the Chilean stock exchanges:

- any direct or indirect acquisition or sale of shares that results in the holder's acquiring or disposing of, directly or indirectly, 10% or more of an open stock corporation's share capital; and

- any direct or indirect acquisition or sale of shares or options to buy or sell shares, in any amount, if made by a holder of 10% or more of an open stock corporation's capital or if made by a director, liquidator, main officer, general manager or manager of such corporation.

In addition, any person who acquires 10% or more of our shares must include in the report whether the purpose of the acquisition is to acquire control of us or if he or she is making a financial investment. A beneficial owner of ADSs representing 10% or more of our share capital will be subject to these reporting requirements under Chilean law.

According to the regulations of the Chilean Superintendency of Banks, Chilean banks that issue ADSs are required to inform the Chilean Superintendency of Banks if any person, directly or beneficially, acquires ADSs representing 5% or more of the total amount of shares of capital stock issued by such bank.

Under the Securities Market Law and the regulations of the Chilean Superintendency of Banks, persons or entities intending to acquire control, directly or indirectly, of an open stock corporation are also required to inform the public of such intention at least 10 business days in advance but in any case, as soon as negotiations regarding the change of control begin (*i.e.*, when information and documents concerning the target are delivered to the potential acquiror) through a filing with the Chilean Superintendency of Securities and Insurance, the stock exchanges and the companies controlled by and that control the target and through a notice published in two Chilean newspapers, which notice must disclose, among other information, the person or entity purchasing or selling and the price and conditions of any negotiations.

Prior to such publication, a written communication to such effect must be sent to the target corporation, to the controlling corporation, to the corporations controlled by the target corporation, to the Chilean Superintendency of Securities and Insurance and to the Chilean stock exchanges. Title XV of the Securities Market Law provides the definition of a controlling power, direct holding and related party.

The General Banking Law provides that, as a matter of public policy, no person or company may acquire, directly or indirectly, more than 10% of the shares of a bank without the prior authorization of the Chilean Superintendency of Banks, which may not be unreasonably withheld. The prohibition also applies to beneficial owners of ADSs. In the absence of such authorization, any person or group of persons acting in concert would not be permitted to exercise voting rights with respect to the shares or ADSs acquired. In determining whether to issue such an authorization, the Chilean Superintendency of Banks considers a number of factors enumerated in the General Banking Law, including the financial stability of the purchasing party.

The General Banking Law also requires the prior authorization of the Chilean Superintendency of Banks for:

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a bank's assets and liabilities by another bank;
- the control by the same person or controlling group of two or more banks; or
- a substantial increase in the share ownership by a controlling shareholder of a bank.

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

- that the bank or banks maintain an effective equity higher than 8.0% and up to 14.0% of their risk-weighted assets;
- that the technical reserve requirements established by Article 65 of the General Banking Law be applicable when deposits exceed one and a half times the resulting bank's paid-in capital and reserves; or
- that the margin for interbank loans be diminished to 20% of the resulting bank's total capital.

The General Banking Law and the regulations issued by the Chilean Superintendency of Banks create the presumption that individuals that are holders of shares and who beneficially own more than 1% of the shares are related to the bank and imposes certain restrictions on the amounts and terms of loans to them made by the related bank. This presumption also applies to beneficial owners of ADSs representing more than 1% of the shares.

Preemptive Rights and Increases of Share Capital

The Chilean Corporations Law provides that whenever a Chilean company issues new shares for cash, it must offer its existing shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentages in the company. Pursuant to this requirement, we will offer preemptive rights in connection with any future issue of shares to the depositary as the registered owner of the shares underlying the ADSs. However, the depositary will not be able to make the preemptive rights available to U.S. holders of ADSs unless a registration statement under the Securities Act, is effective with respect to the underlying shares or an exemption from the registration requirements thereunder is available.

We intend to evaluate, at the time of any preemptive rights offering, the practicality under Chilean law and Central Bank regulations in effect at the time of making such rights available to our ADS holders, as well as the costs and potential liabilities associated with the registration of such rights and the related shares of common stock under the Securities Act, and the indirect benefits to us of thereby enabling the exercise by all or certain U.S. holders of ADSs of their preemptive rights and any other factors we consider appropriate at the time. There can be no assurance that any registration statement would be filed. If we do not file a registration statement and no exemption from the registration requirements under the Securities Act is available, the depositary will sell such holders' preemptive rights and distribute the proceeds if a premium can be recognized over the cost of such sale.

In the event that the depositary is not able, or determines that it is not feasible, to sell such rights at a premium over the cost of any such sale, all or certain U.S. holders of ADSs may receive no value for such rights. Non-U.S. holders of ADSs may be able to exercise their preemptive rights regardless of whether a registration statement is filed. The inability of all or certain U.S. holders of ADSs to exercise preemptive rights in respect of shares of common stock underlying such ADSs could result in such holders not maintaining their percentage ownership of the common stock following a preemptive rights offering unless the holder made additional market purchases of ADSs or shares of common stock.

Under Chilean law, preemptive rights are exercisable or freely transferable by shareholders during a period that cannot be less than 30 days following the grant of such rights. During such period, and for an additional 30-day period thereafter, a Chilean company is not permitted to offer any unsubscribed shares for sale to third parties on more favorable terms than those offered to its shareholders. At the end of such additional 30-day period, a Chilean open stock corporation is authorized to sell unsubscribed shares to third parties on any terms, provided that they are sold on a Chilean stock exchange. Unsubscribed shares that are not sold on a Chilean stock exchange can be sold to third parties only on terms no more favorable to the purchaser than those offered to shareholders.

Shareholders' Meetings and Voting Rights

An ordinary annual meeting of shareholders is held within the first three months of each year, generally in March. The ordinary annual meeting of shareholders is the corporate body that approves the annual financial statements, all dividends in accordance with the dividend policy determined by our board of directors and any other matter that does not require an extraordinary shareholders' meeting and elects our board of directors. On March 23, 2006, an ordinary annual meeting of our shareholders was held. Extraordinary meetings may be called by our board of directors when deemed appropriate, and ordinary or extraordinary meetings must be called by our board of directors when requested by shareholders representing at least 10% of the issued voting shares or by the Chilean Superintendency of Banks.

Notice to convene the ordinary annual meeting or an extraordinary meeting is given by means of three notices that must be published in a newspaper of our corporate domicile (currently Santiago, Chile) or in the *Official Gazette* in a prescribed manner, and the first notice must be published not less than 15 calendar days nor more than 20 calendar days in advance of the scheduled meeting. Notice must also be given to the Chilean Superintendency of Banks and the Santiago, Valparaiso and Electronic Stock Exchanges. Currently, we publish our official notices in the *Diario El Mercurio*.

The notice of a shareholders' meeting must be mailed not fewer than 15 calendar days prior to the date of such meeting and, in the case of an ordinary annual shareholders' meeting, shareholders holding a prescribed minimum investment must be sent an annual report of our activities which includes audited consolidated financial statements. Shareholders who do not fall into this category but who request it must also be sent a copy of our annual report. In addition to these requirements, we regularly provide, and management currently intends to continue to provide, together with the notice of shareholders' meeting, a proposal for the final annual dividend.

The quorum for a shareholders' meeting is established by the presence, in person or by proxy, of shareholders representing at least an absolute majority of the issued shares; if a quorum is not present at the first meeting on first call, the meeting can be reconvened (in accordance with the procedures described in the previous paragraph) and, upon the meeting being reconvened, shareholders present at the reconvened meeting are deemed to constitute a quorum regardless of the percentage of the shares represented.

The shareholders' meetings pass resolutions by the affirmative vote of an absolute majority of those voting shares present or represented at the meeting. A vote by a two-thirds majority of the issued shares, however, required at any shareholders' meeting to approve any of the following actions:

- a change in corporate form, merger or spin-off;
- an amendment to our term of existence or early dissolution;
- a change in corporate domicile;
- a decrease of corporate capital;
- the approval of capital contributions in kind and a valuation of the assets contributed;
- a modification of the powers of shareholders or limitations on the powers of our board of directors;

- a reduction in the number of members of our board of directors;
- the transfer of 50% or more of the corporate assets or the formation or amendment of any business plan that contemplates the transfer of 50% or more of our corporate assets;
- any non-cash distribution in respect of the shares;
- the granting of guarantees to secure third-party obligations in excess of 50% of our corporate assets, unless granted to a subsidiary; or
- the repurchase of shares.

Shareholders may cumulate their votes for the election of directors and cast the same in favor of one person.

In general, Chilean law does not require a Chilean open stock corporation to provide the level and type of information that U.S. securities laws require a reporting company to provide to its shareholders in connection with a solicitation of proxies. Shareholders are entitled to examine the books of a company within the 15-day period before its ordinary annual meeting.

The Chilean Corporations Law provides that whenever shareholders representing 10% or more of the issued voting shares so request, a Chilean company's annual report must include, in addition to the materials provided by the board of directors to shareholders, any shareholders' comments and proposals in relation to the company's affairs. Similarly, the Chilean Corporations Law provides that whenever the board of directors of an open stock corporation convenes an ordinary meeting of the shareholders and solicits proxies for that meeting, or distributes information supporting its decisions or other similar material, it is obligated to include as an annex to its annual report any pertinent comments and proposals that may have been made by shareholders owning 10% or more of the company's voting shares who have requested that such comments and proposals be included.

Only shareholders registered as such with us on the fifth business day prior to the date of a meeting are entitled to attend and vote their shares. A shareholder may appoint another individual (who need not be a shareholder) as his proxy to attend and vote on his behalf. Every shareholder entitled to attend and vote at a shareholders' meeting has one vote for every share subscribed.

Dividend, Liquidation and Appraisal Rights

Under the Chilean Corporations Law, Chilean companies are generally required to distribute at least 30% of their earnings as dividends. However, under the General Banking Law, banks are permitted to distribute less than such minimum amount in any given year if holders of at least two-thirds of the bank's common stock so determine. In the event of any loss of capital or decrease in the legal reserve, no dividends can be distributed until the loss is recovered. Also, a bank cannot distribute dividends above the legal minimum if doing so would result in the bank exceeding its maximum indebtedness ratio or its lending limits. See "Item 8. Financial Information—Consolidated Statements and Other Financial Information—Dividends."

Dividends that are declared but not paid by the date set for payment at the time of declaration are adjusted from the date set for payment to the date they are actually paid, and interest is accrued thereon. The right to receive a dividend lapses if it is not claimed within five years from the date the dividend is payable.

We may declare a dividend in cash or in shares. When a share dividend is declared above the legal minimum (which minimum must be paid in cash), our shareholders must be given the option to elect to receive cash. A U.S. holder of our ADSs may, in the absence of an effective registration statement under the Securities Act or an available exemption from the registration requirement thereunder, effectively be required to receive a dividend in cash. See "—Preemptive Rights and Increases of Share Capital."

In the event of our liquidation, the holders of our fully paid shares would participate equally and ratably, in proportion to the number of paid-in shares held by them, in our assets available after payment of all our creditors.

In accordance with the General Banking Law, our shareholders would have no appraisal rights in the event of a business combination or otherwise.

Approval of Financial Statements

Our board of directors is required to submit our audited consolidated financial statements to the shareholders annually for their approval. The approval or rejection of the financial statements is entirely within our shareholders' discretion. If our shareholders reject our financial statements, our board of directors must submit new financial statements not later than 60 calendar days from the date of the rejection. If our shareholders reject our new financial statements, our entire board of directors is deemed removed from office and a new board of directors is elected at the same meeting. Directors who individually approved our financial statements are disqualified from running for re-election for the ensuing period.

Registrations and Transfers

We act as our own registrar and transfer agent, as is customary among Chilean companies. In the case of jointly owned shares, an attorney-in-fact must be appointed to represent the joint owners in dealings with us.

Amendments to the Chilean Securities Laws and Chilean Corporations Law

On December 20, 2000, the Chilean Congress enacted Law No. 19,705, which amended the Securities Market Law and the Chilean Corporations Law. Among the amendments introduced, Law No. 19,705 established that certain transactions may only be performed via a tender offer. In particular, the acquisition of shares with the intention of obtaining control of an open stock corporation, an offer to buy shares representative of 3% or more of the outstanding shares after obtaining control of an open stock corporation and the sale of shares by controlling shareholders when the price paid is substantially higher than the market price must all be performed by means of a tender offer. According to the Chilean Superintendency of Securities and Insurance, a price should be deemed substantially higher than the market price when it is 10% higher than the average market price for a period starting 90 calendar days and ending 30 calendar days before the proposed transaction.

The amendments introduced to the Chilean Corporations Law by the enactment of Law No. 19,705 also established that:

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

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

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

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

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

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

We are a party, as legal successor of Banco de A. Edwards, to the currently existing foreign investment contract with the Central Bank and the depositary (a copy of which was filed as an exhibit to our Registration Statement on Form F-4 (File No. 333-14020) filed with the Securities and Exchange Commission on October 18, 2001). Absent the foreign investment contract, under applicable Chilean exchange controls, investors would not be granted access to the Formal Exchange Market for the purpose of converting pesos to U.S. dollars and repatriating from Chile amounts received with respect to deposited shares or shares withdrawn from deposit on surrender of ADSs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying shares and any rights arising therefrom).

The following is a summary of the material provisions of the foreign investment contract. This summary does not purport to be complete and is qualified in its entirety by reference to the foreign investment contract. Under the foreign investment contract, the Central Bank agrees to grant to the depositary, on behalf of ADR holders, and to any investor not residing or domiciled in Chile who withdraws shares upon delivery of ADRs (we refer to such shares as withdrawn shares), access to the Formal Exchange Market to convert pesos to U.S. dollars (and remit such U.S. dollars outside of Chile) in respect of shares represented by ADSs or withdrawn shares, including amounts received as:

- cash dividends;
- proceeds from the sale in Chile of withdrawn shares (subject to receipt by the Central Bank of a certificate from the holder of the withdrawn shares (or from an institution authorized by the Central Bank) that such holder's residence and domicile are outside Chile and a certificate from a Chilean stock exchange (or from a brokerage or securities firm established in Chile) that such withdrawn shares were sold on a Chilean stock exchange);
- proceeds from the sale in Chile of rights to subscribe for additional shares;
- proceeds from our liquidation, merger or consolidation; and
- other distributions, including without limitation those resulting from any recapitalization as a result of holding shares represented by ADSs or withdrawn shares.

Transferees of withdrawn shares will not be entitled to any of the foregoing rights unless the withdrawn shares are redeposited with the depositary. Investors receiving withdrawn shares in exchange for ADRs will have the right to redeposit such shares in exchange for ADRs, provided that the conditions to redeposit are satisfied.

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.

Under current Chilean law, the foreign investment contract cannot be changed unilaterally by the Central Bank, and there are judicial precedents (which are not binding with respect to future judicial decisions) indicating that the foreign investment contract may not be abrogated by future legislative changes. There can be no assurance, however, that additional Chilean restrictions applicable to the holders of ADRs, the disposition of underlying shares or the repatriation of the proceeds from such disposition could not be imposed in the future, nor can we assess the duration or impact of such restrictions if imposed.

TAXATION

Chilean Tax Considerations

The following discussion is based on certain Chilean income tax laws presently in force, including Ruling No. 324 of January 29, 1990 of the *Servicio de Impuestos Internos*, or the Chilean Internal Revenue Service, and other applicable regulations and rulings. The discussion summarizes the principal Chilean income tax consequences of an investment in ADSs or shares of common stock by an individual who is not domiciled in, or a resident of, Chile or a legal entity that is not organized under the laws of Chile and does not have a permanent establishment located in Chile, which we refer to as a foreign holder. For purposes of Chilean tax law, an individual holder is a resident of Chile if he or she has resided in Chile for more than six consecutive months in one calendar year or for a total of more than six months, whether consecutive or not, in two consecutive tax years. An individual holder is domiciled in Chile if he or she resides in Chile with the purpose of staying in Chile (such purpose to be evidenced by circumstances such as the acceptance of employment within Chile or the relocation of his or her family to Chile). This discussion is not intended as tax advice to any particular investor, which can be rendered only in light of that investor's particular tax situation.

Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign holders, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may be amended only by another statute. In addition, the Chilean tax authorities issue rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean taxes may not be assessed retroactively against taxpayers who act in good faith relying on such rulings and regulations, but Chilean tax authorities may change rulings and regulations prospectively. There is no general income tax treaty in force between Chile and the United States.

Cash Dividends and Other Distributions

Cash dividends paid by us with respect to ADSs or shares of common stock held by a foreign holder will be subject to a 35.0% Chilean withholding tax, which is withheld and paid over by us, which we refer to as the Chilean withholding tax. A credit against the Chilean withholding tax is available based on the level of corporate income tax, or first category tax, actually paid on the taxable income to which the dividend is imputed; however, this credit does not reduce the Chilean withholding tax on a one-for-one basis because it also increases the base on which the Chilean withholding tax is imposed. In addition, distribution of book income in excess of retained taxable income is subject to the Chilean withholding tax, but such distribution is not eligible for the credit. Under Chilean income tax law, for purposes of determining the level of the first category tax paid, dividends generally are assumed to have been paid out of oldest retained taxable profits. The effective rate of withholding tax to be imposed on dividends paid by us will vary depending upon the amount of first category tax paid by us on the earnings to which the dividends are attributed. In our case, the amount paid as first category tax is lower than it would be based on our income because the dividends paid to SAOS are accounted for as a cost to us. Presently, the first category tax rate is 17%. Whether the first category tax is imposed or not, the effective overall combined rate of Chilean taxes imposed with respect to our distributed profits is 35.0%.

The foregoing tax consequences apply to cash dividends paid and dividend distributions made in property, other than shares of common stock. Share dividends are not subject to Chilean taxation.

Capital Gains

Gain realized on the sale, exchange or other disposition by a foreign holder of ADSs (or ADRs evidencing ADSs) will not be subject to Chilean taxation, provided that such disposition occurs outside Chile or that it is performed under the rules of Title XXIV of the Chilean Securities Market Law, as amended by Law No. 19,601. The deposit and withdrawal of shares of common stock in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on the sale or exchange of shares of common stock (as distinguished from sales or exchanges of ADSs representing such shares of common stock) by a foreign holder will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter) if (1) the foreign holder has held such shares of common stock for less than one year since exchanging ADSs for the shares of common stock, (2) the foreign holder acquired and disposed of the shares of common stock in the ordinary course of its business or as a regular trader of stock or (3) the sale is made to a company in which the foreign holder holds an interest (10.0% or more of the shares in the case of open stock corporations). In all other cases, gain on the disposition of shares of common stock will be subject only to the first category tax levied as a sole tax. However, if it is impossible to determine the taxable capital gain, a 5.0% withholding will be imposed on the total amount to be remitted abroad, without any deductions, as a provisional payment of the total tax due.

The tax basis of shares of common stock received in exchange for ADSs will be the acquisition value of such shares on the date of the exchange. The valuation procedure set forth in the deposit agreement, which values shares of common stock that are being exchanged at the highest price at which they trade on the Santiago Stock Exchange on the date of the exchange, generally will determine the acquisition value for this purpose. Consequently, the conversion of ADSs into shares of common stock and sale of such shares of common stock for the value established under the deposit agreement will not generate a capital gain subject to taxation in Chile.

The distribution and exercise of preemptive rights relating to the shares of common stock will not be subject to Chilean taxation. Amounts received in exchange for the shares or assignment of preemptive rights relating to the shares will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter to the extent described above).

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;

- 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.

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 depositary, in the case of shares of common stock represented by ADSs, and will not be eligible for the dividends-received deduction allowed to corporations under the Internal Revenue Code of 1986, as currently in force. Dividends paid in Chilean pesos will be includable in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day they are received by the U.S. holder, in the case of shares of common stock, or the depositary, 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 2005 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 2006 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.

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.

DOCUMENTS ON DISPLAY

The materials included in this annual report on Form 20-F, and exhibits thereto, may be inspected and copied at the Securities and Exchange Commission's public reference room in Washington, D.C. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. The Securities and Exchange Commission maintains a World Wide Web site on the Internet at http://www.sec.gov that contains reports and information statements and other information regarding us. The reports and information statements and other information about us can be downloaded from the Securities and Exchange Commission's website.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Introduction

We are exposed to market risks in our asset liability management portfolio and in our trading portfolio. Our asset liability management portfolio is comprised of our nontrading activities and includes retail and corporate deposits; mortgage bonds; foreign borrowings, consumer, commercial and mortgage loans; and foreign trade transactions. Our trading portfolio is comprised of our trading activities and includes government securities, corporate bonds, foreign exchange positions, forwards on foreign exchange and currency and interest rate swaps.

The Risk Process

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

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

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

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

- the tracking of positions and the daily update of databases with market prices;
- risk measurement, which involves the quantification of financial exposure, under normal and stress circumstances, using different risk models;
- establishing policies, procedures and risk limits;
- risk monitoring, where the level and the evolution of the different risks we are exposed to is analyzed;
- the distribution of the risk report to senior management and the finance and international committee members;
- the verification of compliance with the board of directors' established risk tolerance levels and limits and identification of any policy exceptions;
- developing guidelines for new products and including new exposures within the current framework; and
- applying new measurement methods to existing products.

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

Market Risk Exposures

Market risk refers to potential losses arising from unfavorable market movements in interest rates or foreign exchange rates, as well as the correlation among these factors and their volatility. We are exposed to the material market risks described below because of the financial positions we maintain. The following section quantifies the potential impact of these risks.

Interest rate risk

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

Currency risk

We are exposed to currency risk because of differences between the asset and liability positions that we maintain in each currency, or currency mismatches. We maintain mismatches in local currency against the U.S. dollar and, to a lesser extent, against the Brazilian real and the euro. Other mismatches are not significant.

At December 31, 2005, our consolidated foreign currency-denominated assets and liabilities were denominated principally in U.S. dollars:

	At December 31, 2005		
	Assets	Liabilities	Net
	(in millions of constant en Ch$ as of December 31, 2005)		
U.S. dollar[1]	Ch$ 1,914,770	Ch$ (1,897,898)	Ch$ 16,8
Brazilian real.	7,412	—	7,4
Euro	34,367	(33,478)	889
Pound sterling	1,496	(1,105)	391
Canadian dollar	407	(121)	286
Japanese yen	429,178	(428,927)	251
Swiss franc	458	(268)	190
Other	257	(97)	160
Total	Ch$ 2,388,345	Ch$ (2,361,894)	Ch$ 26,4

(1) Includes Ch$67,424 million in assets and Ch$365 million in liabilities denominated in foreign currencies and payable in Chilean pesos indexed to the U.S. dollar exchange rate.

As is explained below, we use two models to measure our asset liability management's portfolio's exposure to interest rate risk: an Interest Rate Gap Model and a Duration Gap Model.

Inflation risk

We are exposed to inflation risk because of differences between the asset and liability positions that we maintain in local currency. We have generally maintained more peso-denominated liabilities than peso-denominated assets and more UF-denominated assets than UF-denominated liabilities. The net asset position in UF is inflation-indexed whereas the net position in peso is not inflation-indexed. In 2005 the inflation rate was 3.7%. We believe that inflation risk is not significant for inflation has fluctuated only within a range of 1.1% and 4.4% since 2000.

Balance Sheet Structure

The composition of our assets, liabilities and shareholders' equity at December 31, 2005 by currency and term was as follows:

	At December 31, 2005				
	Ch$	UF	Foreign Currency[1]	Total	Percentage
	(in millions of constant Ch$ as of December 31, 2005, except for percentages)				
Assets[2]:					
Cash and due from banks	Ch$ 305,731	—	Ch$ 353,577	Ch$ 659,308	6.0%
Other assets[1]					
Less than one year	2,599,566	Ch$ 1,300,358	1,458,599	5,358,523	48.3
From one to three years	523,313	932,791	69,913	1,526,017	13.8
More than three years	226,518	2,451,351	93,524	2,771,393	25.0
Total financial assets	Ch$ 3,655,128	Ch$ 4,684,500	Ch$ 1,975,613	Ch$ 10,315,241	93.1%
Other	349,628	1,268	410,919	761,815	6.8
Bank premises and equipment	140,227	—	2,223	142,450	1.3
Investment in other companies	7,160	—	—	7,160	0.1
Allowance for loan losses	(140,895)	—	(410)	(141,305)	(1.3)
Total assets	Ch$ 4,011,248	Ch$ 4,685,768	Ch$ 2,388,345	Ch$ 11,085,361	100.0%
Percentage of total financial assets by currency	35.43%	45.41%	19.16%	100.00%	
Liabilities and shareholders' equity[2]:					
Non-interest bearing demand deposits	Ch$ 1,600,093	Ch$ 7,486	Ch$ 393,156	Ch$ 2,000,735	18.1%
Other liabilities[1]					
Less than one year	2,708,016	1,481,810	1,745,881	5,935,707	53.6
From one to three years	79,454	661,682	104,296	845,432	7.6
More than three years	20,512	749,400	30,154	800,066	7.2
Total financial liabilities	Ch$ 4,408,075	Ch$ 2,900,378	Ch$ 2,273,487	Ch$ 9,581,940	86.5%
Other	494,365	145,542	88,407	728,314	6.5
Shareholders' equity	594,383	—	—	594,383	5.4
2005 net income	180,724	—	—	180,724	1.6
Total liabilities and shareholders' equity	Ch$ 5,677,547	Ch$ 3,045,920	Ch$ 2,361,894	Ch$ 11,085,361	100.0%
Percentage of total financial liabilities and shareholders' equity by currency	46.00%	30.27%	23.73%	100.00%	
Asset/liability gap	Ch$ (1,666,299)	Ch$ 1,639,848	Ch$ 26,451		

(1) Includes assets and liabilities payable in Chilean pesos that are indexed according to the U.S. dollar exchange rate.
(2) Includes forward contracts.

Market Risk: Models and Measurement

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

Asset Liability Portfolio

The finance and international committee's policies with respect to the asset liability portfolio protect net interest revenue on a pre-tax basis and the value of equity from unexpected changes in interest rates, while complying with the limits that have been imposed by Chilean banking regulators and those internally set by us. We use the Interest Rate Gap Model to measure the interest rate risk of our net interest revenue. The Duration

Gap Model is used to measure the interest rate risk of our equity. Currency risk associated with our asset liability portfolio is managed using the Value at Risk, or VaR, methodology. See "—Market Risk: Value at Risk (VaR)."

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

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

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

To compute our exposure to repricing risk for the next 12 months, we prepare, on a monthly basis, gap profiles for inflation-indexed portfolios, non-inflation indexed portfolios and for dollar portfolios. To compute the different gap profiles we use the following tenor buckets:

- monthly, from one month to three months; and
- quarterly, from 90 days to a year.

Next, we calculate the potential impact on net interest revenue over the next twelve months assuming a non-parallel shift in yield curves for non-inflation indexed, inflation and dollar positions. To limit repricing risk, the finance and international committee has established that total potential losses resulting from these shifts cannot exceed a certain amount of net interest revenue. The following tables show, in nominal amounts, the average, low and high repricing risk for the years 2004 and 2005:

	Repricing Risk 2004			
	Low	**High**	**Average**	**December 31, 2004**
	(in millions of nominal Ch$)			
Pesos position	Ch$ 438	Ch$ 6,997	Ch$ 3,841	Ch$ 2,470
UF position	4,308	8,132	6,715	5,710
Foreign currency position	52	1,058	616	1,058

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

In general, we finance our positive one-year UF gap with our negative one-year gap in pesos and, to a lesser extent, the negative one-year gap in foreign currency. The risk of this strategy, which we refer to as net repricing risk, is calculated by subtracting repricing risks for the peso and foreign currency positions from the UF repricing risk.

In each of 2004 and 2005, we expected further increases in short term interest rates in pesos and a flattening of the yield curve in UF, specially in the medium and long term sector of the curve. As a result, we increased marginally the average maturity of the peso liabilities within the one-year gap period and we changed the composition of the UF gap, decreasing the size of the one-year UF gap and increasing the size of the medium and long-term gap. The increase in the average maturity of the peso position decreased the average repricing risk from Ch$3,841 million to Ch$3,350 million. The drop from Ch$6,715 million to Ch$5,366 million in the average risk for the UF position is due to the smaller one-year UF gap. As a result, net average repricing risk decreased from Ch$2,258 million in 2004 to Ch$1,616 million in 2005.

Economic Interest Rate Risk: The Duration Gap Model

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

The following tables show the average low and high economic risk exposure as a percentage of capital for the years 2004 and 2005. The last columns show our interest rate sensitivity as of December 31, 2004 and 2005.

	Economic Risks as a Percentage of Capital 2004			
	Low	**High**	**Average**	**December 2004**
Pesos position	0.21%	2.95%	1.06%	1.62%
UF position	0.63%	2.99%	1.72%	2.99%
Foreign currency position	0.01%	0.32%	0.13%	0.19%

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

The average economic risk for the peso position decreased from 1.06% in 2004 to 0.82% in 2005 due to a lower volatility for the yield curve in pesos after the expected rate increases for the year 2005 came into effect. Average economic risk for the UF position increased from 1.72% in 2004 to 2.66% in 2005 due to an increase in the medium and long term UF gap since we expected no further increases for the interest rates in UF, and average economic risk for the foreign currency position remaining basically unchanged, decreasing from 0.13% in 2004 to 0.10% in 2005. Overall, total average economic risk increased from 2.91% in 2004 to 3.58% in 2005 as a result of the larger economic risk for the UF position.

The Trading Portfolio

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

New Regulations on Market Risks

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

Market Risk: Value at Risk (VaR)

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

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

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

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

- foreign exchange risk measured as the exposure to the volatility of the U.S. dollar; and
- interest rate risk represented in terms of the exposure to the relevant yield curve for the Chilean peso, UF and U.S. dollar.

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

- our foreign exchange portfolio;
- our short term fixed income portfolio, which includes: forwards, short-term instruments issued by the Central Bank, time deposits in Chilean pesos, UF and U.S. dollars and floating notes; and
- our fixed income portfolio, which includes long term Central Bank securities, mortgage bonds, local corporate bonds, foreign corporate bonds and interest rate swaps and cross currency swaps.

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

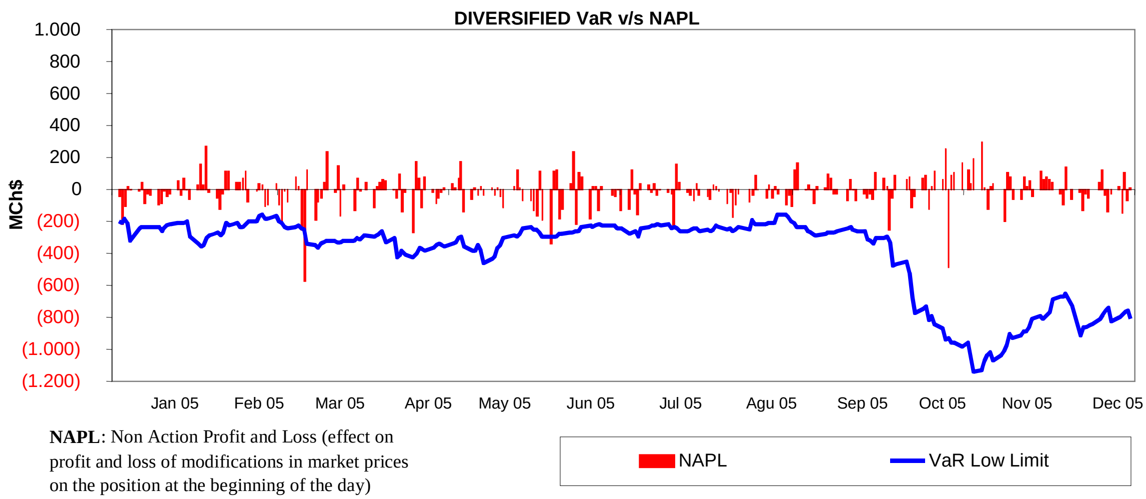
The following tables show the median, low and high daily VaR for the years 2004 and 2005, along with VaR at December 31, 2004 and 2005.

	Period Ended December 31, 2004			At December 31, 2004
	Median VaR	Minimum VaR	Maximum VaR	VaR
	(in millions of nominal Ch$)			
Foreign exchange	Ch$ 141	—	Ch$ 539	Ch$ 100
Interest rate risk	314	Ch$ 154	374	323
Less: portfolio diversification	(90)	(3)	(263)	(172)
Total VaR	Ch$ 365	Ch$ 151	Ch$ 650	Ch$ 251

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

The chart below compares the VaR estimates with no-action-profit and loss, or NAPL, over the last 12 months ended on December 2005. NAPL describes the hypothetical profit and loss on the position that would have been incurred if the previous day's closing position had been kept for the next 24 hours and then revalued.

In the chart below, the bars represent the daily NAPL whereas the line below the bars represents the daily VaR. We check the VaR model on an on-going basis to assess its accuracy. During 2005, the NAPL exceeded the calculated VaR on five occasions, which is within the model expectations.



NAPL: Non Action Profit and Loss (effect on profit and loss of modifications in market prices on the position at the beginning of the day)

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

Non-statistical Risk Measures

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

Present Value Basis Point or PVBP. The PVBP is the change in an instrument's value associated with the change in the reference yield of 1 basis point, or 0.01%. The finance and international committee has approved the PVBP risk limit. As of December 2005, the PVBP for the peso portfolio was Ch$12 million, for the UF portfolio Ch$177 million, and for the USD portfolio Ch$23 million. As of December 2004, the PVBP for the peso portfolio was Ch$3 million, Ch$162 million for the UF portfolio and for the USD portfolio Ch$14 million.

Basis Risk. Basis risk is the possibility of loss from imperfectly matched risk, offsetting positions in two related but not identical markets. We control our exposure to the basis risk between our foreign bonds portfolio and the interest rate swaps used to hedge them. As of December 2005, one basis point of basis risk was worth Ch$35 million. As of December 2004, one basis point of basis risk was worth Ch$20 million.

Position Limit for Fixed Income Portfolio and Currency Mismatch. To limit our exposure to interest rate risk, especially in periods of low volatility, we limit the size of our fixed income portfolio.

Currency Risk. The finance and international committee has determined that our net foreign currency mismatches cannot exceed a certain percentage of our capital. As of December 31, 2005, the net position of our foreign currency denominated assets and Chilean peso-denominated assets that contain repayment terms linked to changes in foreign currency exchange rates exceeded our foreign currency denominated liabilities and Chilean peso-denominated liabilities that contain repayment terms linked to changes in foreign currency exchange rates by Ch$26,451 million, equivalent to 4.5% of our paid-in capital and reserves.

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

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

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

It is our policy to make foreign currency-denominated loans only to customers whose activities generate foreign currency-denominated cash flow or that are indexed to a foreign currency, or if the market value of a customer's assets is indexed to the rate of exchange. At December 31, 2005, approximately 13.3% of our consolidated total loan portfolio was denominated in foreign currencies.

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

- transactions covering U.S. dollars against other foreign currencies; and
- transactions covering only Chilean pesos and UFs against U.S. dollars.

The following table presents notional amounts of our derivatives contracts at December 31, 2005:

	At December 31, 2005 Notional Amount (in millions of constant Ch$ as of December 31, 2005)	
Exchange rate forwards denominated in foreign currency	Ch$	574,880
Foreign currency futures (purchased)		1,482,161
Foreign currency futures (sold)		1,137,495
Chilean currency futures (purchased)		413,205
Chilean currency futures (sold)		309,261
Interest rate swaps		864,572
Purchase option		2,263
Total	Ch$	4,783,837

The following table presents foreign currency exchange rate risk instruments as of December 31, 2005, in notional amounts, and weighted average exchange rates by expected (contractual) maturity dates, for the next five years:

	As of December 31, 2005					
	2006	2007	2008	2009	2010	Total
	(in millions of constant Ch$ as of December 31, 2005)					
Exchange rate forwards denominated in foreign currency						
Purchased:						
Pay U.S. dollars/receive euros	Ch$ 10,033	Ch$ 3,163	Ch$ —	Ch$ —	Ch$ —	Ch$ 13,196
Average contractual exchange rate[1]	618.83	629.48				
Pay U.S. dollars/receive Japanese yen	274,931	84,152	—	—	—	359,083
Average contractual exchange rate[1]	4.77	4.60				
Pay U.S. dollars/receive Pound sterling	3,584	730	—	—	—	4,314
Average contractual exchange rate[1]	926.02	912.11				
Pay U.S. dollars/receive Canadian dollars	1,031	1,320	—	—	—	2,351
Average contractual exchange rate[1]	415.83	418.96			—	
Total	Ch$ 289,579	Ch$ 89,365	Ch$ —	Ch$ —	Ch$ —	Ch$ 378,944
Sold:						
Pay euros/receive U.S. dollars	16,365	3,240	—	—	—	19,605
Average contractual exchange rate[1]	628.15	644.81				
Pay Japanese yen/receive U.S. dollars	169,057	—	—	—	—	169,057
Average contractual rate[1]	4.39					
Pay Pound sterling/receive U.S. dollars	4,071	740	—	—	—	4,811
Average contractual exchange rate[1]	931.41	925.58				
Pay Canadian dollars/receive U.S. dollars	1,142	1,321	—	—	—	2,463
Average contractual exchange rate[1]	421.20	419.22				
Total	Ch$ 190,635	Ch$ 5,301	Ch$ —	Ch$ —	Ch$ —	Ch$ 195,936
Foreign currency futures						
Purchased:						
Pay Chilean pesos/ receive U.S. dollars	1,303,595	5,247	—	—	—	1,308,842
Average contractual exchange rate[1]	533.91	566.22				
Pay UF/ receive U.S. dollars	167,560	5,142	—	—	—	172,702
Average contractual exchange rate[1]	558.65	616.28				
Pay Chilean pesos/ receive euros	64	—	—	—	—	64
Average contractual exchange rate[1]	786.59					
Pay Chilean pesos/ receive Pound sterling	443	—	—	—	—	443
Average contractual exchange rate[1]	904.97					
Pay Chilean pesos/ receive Canadian dollars	110	—	—	—	—	110
Average contractual exchange rate[1]	442.16					
Total	Ch$ 1,471,772	Ch$ 10,389	Ch$ —	Ch$ —	Ch$ —	Ch$ 1,482,161
Sold:						
Pay U.S. dollars/receive Chilean pesos	1,084,122	13,729	170	—	—	1,098,021
Average contractual exchange rate[1]	529.46	518.28	536.70			
Pay U.S. dollars/receive UF	35,388	—	—	—	—	35,388
Average contractual exchange rate[1]	542.57					
Pay euros/receive Chilean pesos	3,970	—	—	—	—	3,970
Average contractual exchange rate[1]	609.86					
Pay Pound sterling/receive Chilean pesos	14	—	—	—	—	14
Average contractual rate[1]	895.72					
Pay Japanese yen/receive Chilean pesos	102	—	—	—	—	102
Average contractual exchange rate[1]	4.37					
Total	Ch$ 1,123,596	Ch$ 13,729	Ch$ 170	Ch$ —	Ch$ —	Ch$ 1,137,495
Chilean currency futures						
Purchased:						
Pay UF/receive Chilean pesos	405,853	7,352	—	—	—	413,205
Average contractual exchange rate[1]	18,039.67	18,380.00				
Total	Ch$ 405,853	Ch$ 7,352	Ch$ —	Ch$ —	Ch$ —	Ch$ 413,205
Sold:						
Pay Chilean pesos/receive UF	309,261	—	—	—	—	309,261
Average contractual exchange rate[1]	17,971.33					
Total	Ch$ 309,261	Ch$ —	Ch$ —	Ch$ —	Ch$ —	Ch$ 309,261

(1) The average contractual exchange rate represents the amount of specified currency equal to U.S.$1.00.

Foreign Operations

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

Credit Risk for Derivatives

We make use of derivative transactions in the course of business to meet the financial needs of our customers, to generate revenues through our trading activities, and to manage our exposure to fluctuations in interest and currency rates. We use the same credit risk management procedures when entering into derivative transactions as we do for traditional lending products. Our primary counter-parties in derivative transactions are investment-grade financial institutions.

In terms of outstanding exposure to credit risk, the true measure of risk from derivative transactions is the mark-to-market value of the contracts at a point in time (*i.e.*, the cost to replace the contract at the current market rates should the counter-party default prior to the settlement). For most derivative transactions, the notional principal amount does not change hands; it is simply an amount that is used as a reference upon which to calculate payments. While notional principal is the most commonly used volume measure in the derivative and foreign exchange markets, it is not a measure of credit risk. As of December 31, 2005, the credit exposure of our foreign exchange forwards was Ch$34,333 million.

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

We 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, 2005. 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.

There has been no change in our internal control over financial reporting during 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. Jorge Awad M., a member of our audit committee, qualifies as an "audit committee financial expert" and as independent within the meaning of this Item 16A.

Item 16B. Code of Ethics

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions, as well as to our directors and other employees without exception. Our code of ethics was filed as an exhibit to our Form 20-F filed in June 2005.

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, 2004 and 2005:

	Year ended December 31,	
	2004	2005
	(in millions of constant Ch$ as of December 31, 2005)	
Audit fees	Ch$ 381	Ch$ 447
Audit-related fees	—	—
Tax fees	—	8
Other fees	10	5
Total fees	Ch$ 391	Ch$ 460

Audit fees in the above table are the aggregate fees billed by Ernst & Young Limitada in connection with the audit of our annual financial statements. This includes: (i) reviews and advisory services related to filings with the LSE and the Securities and Exchange Commission, (ii) the statutory audit required by local regulations, (iii) the audit of the New York and Miami branches and (iv) the audit of the consolidated financial statements required by Item 18 of Form 20-F.

Tax fees in the above table are fees billed by Ernst & Young Limitada for tax compliance services, tax consultations and tax planning services.

Other fees in the above table are fees billed by Ernst & Young Limitada primarily related to compensation research studies for year 2005.

Pre-Approval Policies and Procedures

Our audit committee approves all audit, audit-related services, tax services and other services provided by Ernst & Young Limitada. Any services provided by Ernst & Young Limitada that are not specifically included within the scope of the audit must be pre-approved by the audit committee prior to any engagement. These policies and procedures have been in place since May 2003.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not Applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not make any purchases of our previously issued shares during the fiscal year ended December 31, 2005.

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.

Item 19. Exhibits

LIST OF EXHIBITS

Exhibit No.	Exhibit
1.1	*Estatutos* of Banco de Chile, which serve as our articles of incorporation and bylaws, together with an 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).
8.1	List of subsidiaries.
11.1	Code of ethics (English translation)(filed as an exhibit to our annual report on Form 20-F (File No. 001-15266) for the year ended December 31, 2004, and incorporated herein by reference).
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 Commision copies of any such omitted instruments or agreements as the Securities and Exchange Commision requests.

SIGNATURE

The registrant, Banco de Chile, hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

BANCO DE CHILE

By /s/ Pablo Granifo
Name: Pablo Granifo
Title: Chief Executive Officer

Date: June 26, 20