



Chairman's letter

Banco de Chile



Dear Shareholders,

At the close of a year of extraordinary achievements for our Corporation, it is a pleasure for me to present you with annual report number 196 for the year ended December 31, 2006.

During the year, Banco de Chile again positioned itself as one of the most profitable banks in the Chilean financial system, with a return on capital and reserves of 30.5% and the largest net income in its history. This performance is highly satisfactory not only in itself, as being the result of a year of constant work and effort, but for having been achieved through numerous undertakings, carried out in a coordinated way and with the decided and professional collaboration of all our staff, that enable us to persevere in the creation of value for our Corporation. We are proud that Banco de Chile was elected in 2006 as the bank that showed the greatest creation of value for its shareholders. However, as I have said before, building value in a sustainable way requires embracing decisively a dynamic that directs the business toward sustained growth.

We saw during 2006 a very favorable external economic scenario and a domestic economy that continued in the direction of expansion, although at a slower rate than expected. Chile has the necessary solid bases to make significant progress on the road to development. We have respectable institutions, we enjoy a recognized financial solvency and the country has a very high reputation internationally. This is why the 4.2% growth in domestic product in 2006 was well below its potential and also the expectations of the community in general.

We also have in our favor a positive international scenario. As Chile has an economic system open to the world, the fact that at the same time our principal trading partners, China, United States, the European Union and Japan, show attractive growth rates makes a global panorama of maximum opportunities that we should take advantage of. Commodity prices have remained high as a result of the additional demand coming from the regions mentioned. The positive effects of the high prices of copper, molybdenum and woodpulp, however, are counter-balanced by the high oil price that adversely affects large and small companies, as well as the individual consumer.

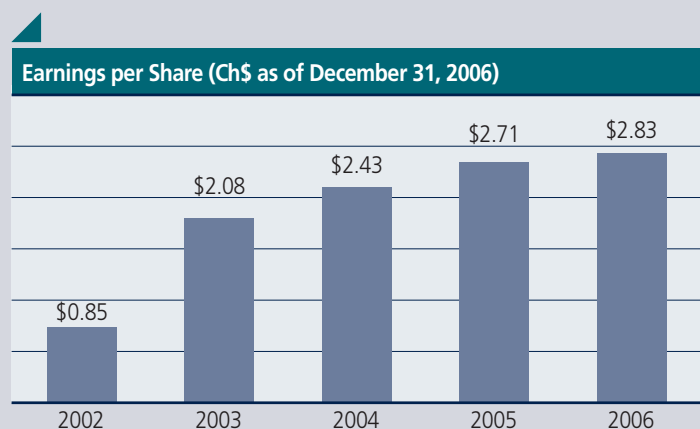
In this context, the Chilean financial system showed impressive growth of around 16% in real terms, almost four times more than the global growth of the economy, with much lower levels of risk that will only be sustainable if the country recovers the dynamism consistent with the mentioned growth potential.

Banco de Chile surpassed Ch\$9,000,000 million in loans, better than planned at the start of the year. The commercial strategy, reinforced during 2005 and consolidated in 2006, has enabled us to direct our commercial efforts determinedly to the most profitable segments of the market and those with the greatest growth potential. Greater emphasis on the retail segments, both individuals and small and medium companies, a greater integration of the products of the subsidiaries into the

Bank's network, the strengthening of the distribution network, including our new representative office in the Chinese capital, the only one of a Latin American bank, and, in particular, the remote channels, are fundamental to our business concept.

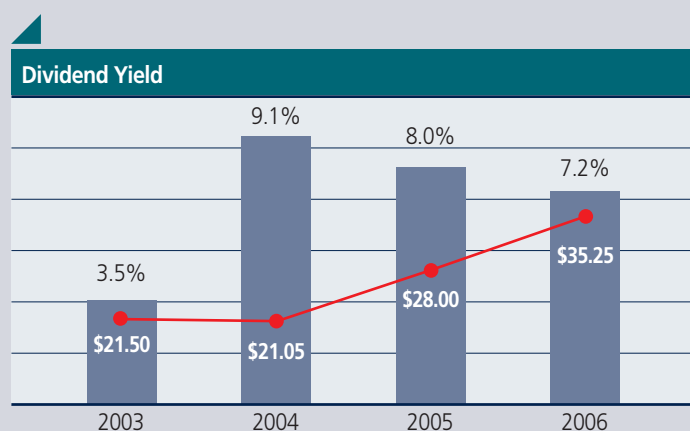
This successful performance also reflects the Bank's efforts in technological progress and commercial management support, the product of a strategic plan that has led to a cultural change within the institution. As a result, during 2006

we increased the number of debtors by 15.5%, the number of checking accounts by almost 10%, the stock of credit cards by close to 19% and total loans net of interbank by 15.6%, reaching a market share of 18.1%.



Banco de Chile's earnings per share has shown a real annual compound increase of 11% over the last three years.

With a combined dividend return of 7.2% in 2006, the return relating to the portion in cash was 5.0%.



The dividend yield for the year ■ reflects the net income and the ex-dividend share price of the previous year ●, calculated in real terms.

It is fair to point out that these strong growth rates would not have been possible without the technological modernization based on the Neos plan, which contemplates a complete transformation of our operating and business intelligence platforms. The ability to recognize the individuality of our customers when making an offer has enabled us to acquire a large number of new customers. We have effectively brought the Bank closer to its customers, which not only allowed us to increase business volumes absolutely but to record significant improvements in productivity: a 21% increase over the past three years in loans per employee and a 16% increase in earnings per employee partly explain the solid results of our Corporation. The completion of this project in the next 18 months will enable us to consolidate the projected gains in efficiency, not only through cost savings but, much more important, persevering with the strengthening of critical masses and business volumes leading to increases in the different revenue flows. I firmly believe that this new focus toward our customers has been fundamental in the important distinction we received in the form of the National Consumer Satisfaction Prize 2006.

We can therefore see how Banco de Chile has contributed with vigor to the dynamism of the Chilean financial system for several years now. We believe

that there exists a great potential for growth in the banking business, although the penetration process has not shown rates consistent with progress in other areas. The rigidity of the labor laws, the differences in regulation concerning other financial players, limitations in terms of interest rates and a capital market that has continued to wait for the legal amendments to introduce more flexibility, have been the reasons for this delay. While Chile has shown one of the highest bank penetration rates in the region, with loans the equivalent of close to 70% of GDP, on average only 15% of the workforce has a checking account while it is estimated that less than 50% of the workforce has a current bank loan, a percentage that has not changed much since 1997. Undoubtedly, we still have a lot to do.

The board I preside is aware of the fundamental role placed by good corporate governance in the achievement of long-term successful performance. The progress in performance has therefore been accompanied by rigorous corporate management practices that go further than compliance with the regulations established by the authorities on different matters.

During the year, and continuing with our plans in this respect, good practices have been reinforced within the institution and the necessary adaptations

applied to meet the demands of the US Sarbanes-Oxley law, strengthening the areas for monitoring operations and preventing asset laundering. In our American branches, we have responded with great commitment and resources to the requirements made by the US authorities in 2004, in order to meet the stages laid down. At the same time, we carried out an intensive internal campaign in 2005 and 2006, called "Do the right thing... and more" to make known the scope of these and other regulations and in general, to reinforce ethical aspects relevant to the banking function.

With respect to the Bank's equity position and the new capital requirements regulations, we have introduced within the set timetable the demands deriving from the Basel II agreement, and have adopted measures that sustain the high growth rates the Bank is capable to produce. The strategy developed during 2006 has permitted an increase in the equity base to meet these challenges. We made a successful placement of subordinated bonds abroad for a sum of US\$200 million, the first of its kind in the history of Banco de Chile. This transaction, that contributed to increasing the Bank's capital base, was additional to the positive effect of the reinvestment of 30% of the net income for 2005, approved by the shareholders meeting in 2006.

"The successful performance of Banco de Chile also reflects the efforts made in technological advances and commercial management support, as a result of the strategic plan which has led to a cultural change within the institution."

Taking into account the net income of Ch\$195 billion obtained in 2006, the board of Banco de Chile will propose to the shareholders meeting, to be held in March 2007, a further capitalization of 30% of that net income. Subject to the proposal's acceptance, our shareholders will therefore receive, for each share they hold, a cash dividend for 70%, i.e. Ch\$1.9796 per share, and the remaining 30% will be distributed in the form of free shares, in the proportion of 0.02213 shares for each one held. It is interesting to point out that the mechanism approved previously enabled the Bank to have the capital necessary to increase its net income in 2006, and thus the dividend distributed to its shareholders, by more than 4% in real terms, with a combined dividend yield of over 7% per annum.

Because of its long history of commitment to the country and its successful results, Banco de Chile feels a great responsibility to the country's emerging sectors, that not only offer great growth potential but constitute a source of social development. Our commitment to bank penetration therefore includes a support sustainable over time, training and providing the necessary tools to numerous people who start business activities on a small scale and who depend on the possibility of accessing credit and management knowledge. Under this principle, our Banco CrediChile Division has

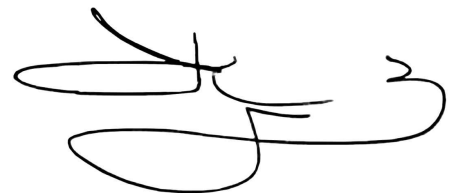
maintained an alliance since 2005 with Hogar de Cristo to support "Fondo Esperanza", a charity that grants micro-loans and focused education to small undertakings whose success could contribute to improving the situation of poverty of many families in Chile. At the end of 2006, Fondo Esperanza has a portfolio of more than 13,000 micro-businesses.

In addition to this work, there are our traditional activities of support for the community developed by the Banco de Chile Corporation and that, with the collaboration of its work teams that take part generously in a fully committed way, contribute decisively with various institutions, particularly the Fundación Teletón. Our commitment also extends to other areas of support for sports and various initiatives in the area of quality education, particularly for exposed sectors.

This year, we want to share with our shareholders, customers and staff, for the first time, a compendium of what these activities represent and the scope of the commitment of Banco de Chile with the community, in a special section of this annual report. It is a matter of great pride for the board that I preside, and a particular reason of satisfaction for me, to record the extent of our contribution which is, without doubt and in the first place, the contribution

of our shareholders. I am sure that the possibility of fully knowing this will motivate us to extend it and make it more efficient, as our possibilities allow.

These activities, together with a performance of excellence, have led Banco de Chile to be awarded important recognitions during 2006: "Best Bank in Chile 2006", among the 10 Best Companies in Corporate Governance in Latin America, and the prize for Energy Efficiency, among others. There is no doubt that we have used our resources, efforts and initiatives at the service of our customers. In this, the support and trust of our shareholders has been fundamental. Equally relevant has been having the dedication and professionalism of our staff whom I thank sincerely for their support and commitment. For all the above and confident in a better future for our country and in the capacity of our staff, we shall continue to work with enthusiasm along the road to growth and leadership that Banco de Chile has shown throughout its 113 years of history.



Fernando Cañas B.
Chairman of the Board