

**Dear Shareholders:**

It is a great pleasure for me to present the annual report and financial statements of Banco de Chile for 2007 following a year that again produced record results for our corporation and set important bases for its future growth.

Without any doubt, one of the most important events this year was the approval of the merger between Banco de Chile and Citibank Chile by the regulatory authorities and entities in Chile and the United States of America, and also by the extraordinary shareholders meeting called for this purpose in late December. We are certain that this merger, which began to be implemented on January 1, 2008, will stand as a new landmark in the century's history of Banco de Chile, being consistent with the strategy and vision defined for our corporation.

During 2007, Banco de Chile again managed to exceed the results of previous years with a net income of Ch\$242,288 million, the highest in the recent history of the institution and, once again, to occupy first place in profitability in the Chilean financial system, with a return on capital and reserves of 29.9%. The successive achievement of successful results has enabled Banco de Chile to stand out as one of the companies that has managed to create greater value for its shareholders, having been chosen in 2006 and 2007 as the company in the financial sector that showed the greatest creation of value during the respective previous years.

As a result of the excellent performance during the year and continuing with the growing trend seen in previous years, the earnings per share obtained in 2007 showed an important increase for the benefit of our shareholders. This amounted to Ch\$3.37, a real increase of 11% compared to the earnings per share of the year before and an annual compounded 30% in real terms since 2002, the year of the previous merger with Banco Edwards.

This important increase in earnings per share was obtained even though there was a 4.3% increase in the number of subscribed and paid shares of Banco de Chile in the year, as a result of the capitalization of 30% of the net income for 2006 and the capital increase approved during 2007. Together, these meant an effective increase in the Bank's capital during the year of the equivalent of approximately 240 million dollars, close to 19% of the capital and reserves at the end of 2006.

It is interesting to mention that these capital increases not only supported the Bank's growth but contributed to providing greater liquidity for its shares. The total volume traded in the Banco de Chile share in 2007 showed a nominal growth of 74%, with an average daily trading, including ADRs, of 1.8 billion pesos, equivalent to almost 3.6 million dollars a day. Shareholders have thus been able to see how our company is capable of showing growth and returns above the market performance, as well as enjoying the advantages of greater liquidity in their shares, both effects consistent with the objective of adding value for our shareholders.

Regarding the earnings per share for 2007, the board that I preside decided to propose to the shareholders meeting in March

2008 the distribution and payment of 100% of net income as dividends. Subject to acceptance of the proposal, shareholders of Banco de Chile will receive a cash dividend of Ch\$3.37 per share held, thus providing an attractive return of over 7% in real terms.

This result is without doubt an example of the high level of competence and professionalism of all our staff who have known how to assume the challenge of efficient work every day, with motivation, enthusiasm and dedication, thus building the bases for sustainable future growth.

This commitment, together with an appropriate business strategy and supported by a modern technological, operational and business intelligence structure, implemented over various years, explains the important progress made by the institution in terms of efficiency. This progress was not only achieved by cost savings but by the strengthening of critical masses and business volumes leading to increases in revenue streams. Significant improvements have also been made in productivity over the last three years, with a 14% increase in loans per employee and a 506 basis-point reduction in the efficiency ratio, which partly explain our corporation's solid results.

Earnings per Share

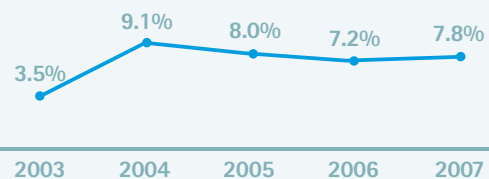
(Ch\$ of december 2007)



The earnings per share in 2007 were 11% higher in real terms than the year before and 30% on an annual compounded basis over the last 5 years.

Annual Dividend Yield

The dividend yield for each year takes into account the net income for the previous year and the ex-dividend share price of the year before, in real terms.



At the end of 2007, Banco de Chile has more than Ch\$11,785 billion in total loans net of interbank lending, a 14.5% real increase during the year, exceeding the expansion shown by the system and also by the average of our main competitors. Banco de Chile thus increased its market share by 44 basis points, accounting for 18.5% of the industry's total loans.

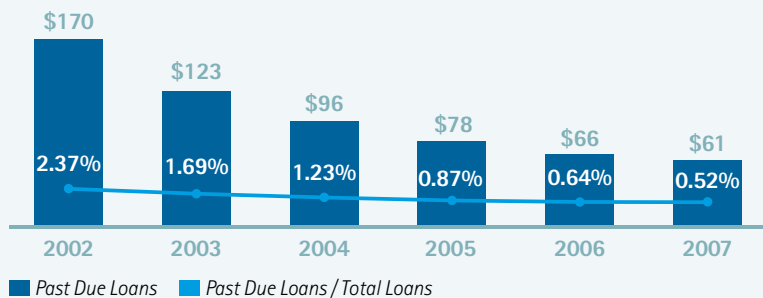
The consolidation of our commercial strategy has enabled us to firmly direct our efforts to the more profitable market segments and those offering attractive potential growth, with a decided emphasis on the retail segments. Particularly notable were the results of mortgage and consumer loans. While mortgage loans for housing increased by 18% in real terms over 2006, exceeding the system's growth by 260 basis points, consumer loans rose by 9%, equally far above the industry's average growth rate. At the same time, the Bank continued to support development of the corporate sector, in particular commercial loans which grew by 16% in real terms, on an unconsolidated basis, also higher than the industry average in this segment.

At the level of the sum of the markets, it is interesting to note that Banco de Chile's loan portfolio expanded as a consequence of the capture of 20% of the additional loans generated by the financial system during 2007. Our Bank therefore captured the highest proportion of loans generated, surpassing the rest of its competitors and demonstrating the strength of our commercial abilities.

It is important to stress that this growth, particularly in segments of greater profitability although with a higher level of risk, has been achieved without adversely affecting the Bank's credit quality, maintaining a prudent risk policy that has been characteristic of our corporation. The volume of the Bank's past due loan portfolio retained its downward trend, reducing by 7.4% in real terms compared to 2006. As a result, the year-end past due portfolio accounted for only 0.52% of total loans, a reduction of 12 basis points in 12 months.

Asset Quality

(Billions of Ch\$ of december 2007)



The past due portfolio maintained its downward trend, with a 7.4% fall in real terms during 2007.

The volume of loans granted by the Chilean financial industry in 2007 reduced its accelerated growth rate. During 2006, the banking system produced strong growth of around 16% in real terms, almost four times the economy's overall growth rate, with low risk levels. In 2007, while loans continued to expand, the rhythm slowed down, with a growth rate of 12.7% in real terms, equivalent to 2.4 times the growth of the economy. For 2008, we believe that a similar trend is to be expected, with a deceleration in the growth of the financial system but still maintaining a level of expansion much above the growth of the economy.

In recent months there has been great volatility in the international and local stock markets, influenced by the deceleration of the American economy, high oil prices and those of commodities in general. However, we do not believe that this turbulence poses a threat to the stability of the Chilean system which maintains its solid institutional fundamentals and its strong liquidity and solvency positions.

The global performance of the Chilean economy in 2007 showed expansion of close to 5.2%, better than the 4% growth of 2006 and confirming the confidence that our country has in the conditions necessary for supporting significant advances toward a higher degree of development. We have clear and respected institutions, with a high degree of credibility by the international community, and of financial strength and solvency. This should all permit our country to produce interesting levels

of growth, without ignoring factors like the energy crisis, the high international oil price, domestic inflationary pressures and volatility in the foreign exchange and stock markets which can adversely affect short and medium-term performance.

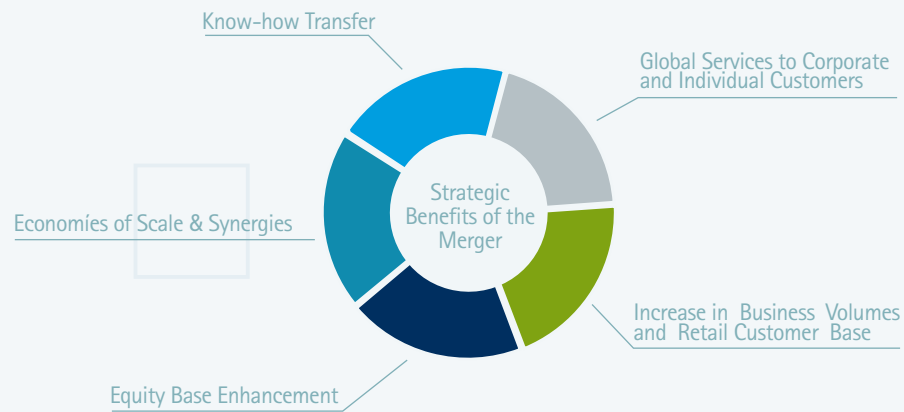
The global economy, for its part, showed growth of 5.2% in 2007, particularly notable being the behavior of the Asian economies. China and India reported growth of 11% and 9% respectively, giving an impulse to the global economy and also showing that the traditional international economic forces are finding a balance in these emerging markets. Asian dynamism thus acted as a counterweight to the performance of the United States, an economy that expanded moderately by 2.2% in 2007, below its growth rate in 2006. The effects of the mortgage loan conditions, plus the fall in house prices and less favorable financial conditions, impacted its growth rate and produced a contraction in international financial liquidity. We believe that Chile has the fundamentals necessary for being able to adapt to this scenario and maintain its growth and development expectations.

With respect to our corporation, we will be the protagonists in 2008 of the union between the extensive business tradition and positioning of Banco de Chile in the local market and the leadership of Citibank at the global level. This will enable our organization to have a presence and prestige unique in the market with a network of more than 400 branches and sales points in the country and access to one of the most important financial services platforms in the world.

The completion of the merger will permit, among other benefits, the creation of new value proposals through offering global services to corporate and individual customers, an increase in business volumes and the customer base, in particular in the mass segments through the incorporation of Atlas, the consumer division of Citibank Chile, and the obtaining of larger economies of scale. On the other hand, the merger represents a great opportunity to incorporate the best practices in the industry through the transfer of Citibank's knowledge of global markets.

The value proposal of Citibank is of a high degree of specialization in varied customer and services segments, particularly its competitive strengths in corporate and investment products, plus a high prominence and positioning in the individuals market, both in the mass and high-income segments. Banco de Chile will also form part of Citigroup's Financial Services Global Network, enabling our institution to strengthen especially its corporate, investment and private banking areas.

Banco de Chile and Citibank Chile Merger



From the perspective of our present focuses and challenges, this project is a large-scale advance and anticipation in achieving our medium and long-term strategic objectives. Banco de Chile's share of the global market would initially increase from 18.5% to over 20% while gaining a greater participation in the mass segments which in recent years have been of special interest to the Bank.

The project will also strengthen and consolidate our customer base, granting sustainability to the permanent development of one of the principal strategic assets of Banco de Chile, as are its customers. Market share in number of debtors and checking accounts would therefore rise initially to over 25%. The consolidation of mass consumer loans of the respective divisions of both institutions (Banco CrediChile and Atlas) will enable Banco de Chile to lead this market segment.

Another benefit related to the merger with Citibank Chile is the strengthening of the Bank's resultant equity base. The business of Citi in Chile had a large under-employed equity base, with a Basel ratio of over 20%, practically all of which is basic capital. The merger will allow Banco de Chile's equity base to expand, thus immediately improving its Basel ratio and later, and as necessary, increasing the possibility of accessing the secondary capital through the issue of subordinated bonds.

In terms of economies of scale and synergies, our estimates allow us to foresee that there are interesting opportunities for creating value. These arise mainly in cost savings, plus the commercial synergies related to the adoption of best practices and important opportunities for the cross selling of products to the customer bases.

The principal factors of less value related to the project are concentrated on initial merger costs, mainly severance payments and restructurings, mostly to be incurred during the first year. Added to this can be added the impact of a potential loss of customers and the expenses and investments related to technological requirements.

It should be remembered that the project included the sale of Banco de Chile's branches in the United States of America for a pre-tax amount of US\$130 million which would offset the extraordinary costs of the merger that will be necessarily incurred during 2008.

Overall, taking into account the economies of scale, synergies and the expenses inherent in the process, the net contribution of the merger of Banco de Chile and Citibank Chile would have an estimated total net present value of approximately Ch\$160,000 million.

Regarding our permanent commitment with the community, a fundamental pillar has been the work carried out for 29 years now, jointly with Fundación Teletón, to integrate disabled people and improve their quality of life. Again in 2007, more than 8 thousand corporation staff voluntarily gave their efforts and work in this solidarity crusade for contributing to the daily work carried out by the foundation with more than 24,500 patients, through 10 rehabilitation centers throughout the country.

In addition to this important support is the collaboration of Banco de Chile with the country's emerging sectors who, with their work and effort, are a constant contribution to growth and development. Together with our commitment with bank penetration in the enterprise sectors, the corporation supports, through Banco CrediChile, the Fondo Esperanza of Hogar de Cristo, a non-profit-making institution that grants micro-loans and education focused on small business people. We believe that initiatives like this will permit the provision of the financial tools necessary for improving the quality of life of our people.

Along similar lines, the Bank constantly supports education through its contribution to Fundación Astoreca, an institution focused on improving the quality of education as an effective tool for breaking the poverty circle and its sequels. Through initiatives like the San José de Lampa School, the foundation is developing a training model of excellence for poor children and young people which will be replicable in other schools in Chile.

These activities, added to a performance of excellence, are proof of our ability to respond with creativity and efficiency to the requirements of the industry and the needs of our customers and shareholders. On behalf of the board of directors, I thank you for your confidence and, together with our staff, we renew our commitment to continue working with enthusiasm along the road to growth and leadership that we have prepared.



Pablo Granifo Lavín
Chairman of the Board