



02

Economic and Financial Environment

Banco de Chile

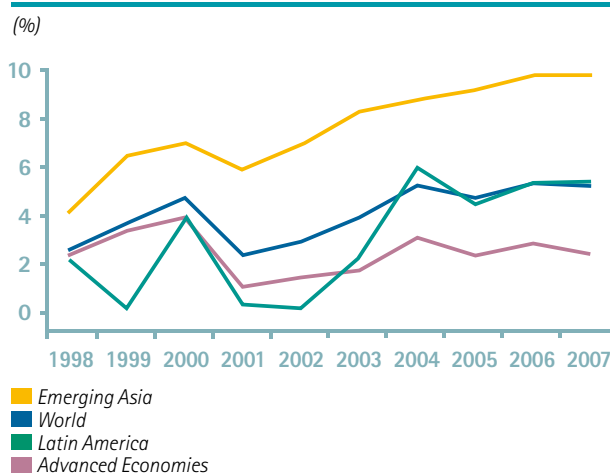


Global Economy

The global economy experienced solid and balanced growth in the different regions during 2007, with an expansion of around 5.3%, slightly lower than the already-high 5.4% of 2006. This positive performance was sustained basically by the strong growth shown by the Asian economies, mainly China and India, which reported growth of over 11% and 9% respectively. The expansion of these economies in recent years has contributed to balancing global economic dynamism that has traditionally been driven by the more developed economies, and permitted the maintenance of global trading activity and the raising of commodity prices to levels way above historical averages.

The dynamism shown by the global economy contrasts with the deceleration in the United States which showed a moderate expansion of close to 2.2% compared to 2.9% in 2006. The deterioration in credit conditions on the American mortgage market, plus the fall in house prices and less favorable financial conditions for consumers, ended by impacting that country's level of activity and generating from August 2007, a sharp contraction in liquidity on the international financial market.

Global Growth



Source: World Economic Outlook. International Monetary Fund. October 2007. Monetary Policy Report. Central Bank of Chile, January 2008

Despite timely actions by the world's principal central banks, which injected liquidity into the financial markets, private consumption in the last quarter of the year in the United States and some manufacturing sector indicators showed clear signs of deceleration, generating uncertainty about the future of the American economy.

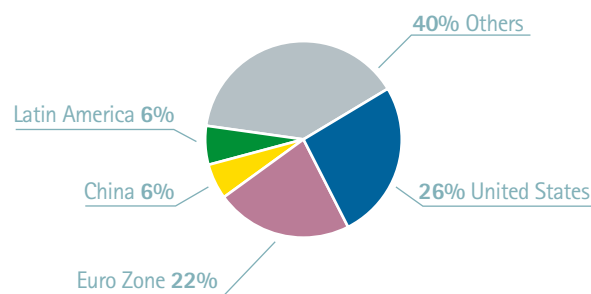
As in previous years, Latin America benefited in 2007 from high prices for its commodities and from some progress in structural reforms that allowed an increase in foreign capital inflows to the region. Brazil achieved an estimated growth of 5.2%, favored by a less restrictive monetary policy and a more stable political environment, while Peru achieved a growth of close to 8% driven by large investments in the mining and gas production sectors. Mexico, for its part, grew by around 3.1%, benefiting from the strong economic activity of the United States in the first part of the year.

In this external scenario, the price of oil reached record levels and the international cost of food continued to follow a rising trend as a result of the great dynamism in the emerging economies and tight supplies.

Growth in Europe and Japan was quite similar to that seen in 2006. In the first case, the region's economies reached an estimated growth of 2.6%, with a monetary policy that was less expansive than in previous years, notable being the strong appreciation of the euro against the US dollar. Japan maintained a reduced dynamism with growth approaching 2% but above the average growth of its economy since 2000.

Global GDP Share by Region

(US\$ basis)



Source: World Economic Outlook. International Monetary Fund. October 2007.

Chilean Economy

The Chilean economy in 2007 grew by close to 5.2%, a figure that compares positively with the lean growth of 4% achieved in 2006 and negatively compared to growth in 2004 and 2005, years when the country achieved its best growth rates in the last ten years, with figures of 6.0% and 5.7% respectively.

Despite the fact that in the first months of the year there was a growth of close to 6% and everything appeared to suggest that the Chilean economy was regaining greater dynamism following the modest performance of 2006, various factors, some already noted in 2006, caused an important deceleration in the rate of expansion in the second half of the year. These include the energy crisis caused by repeated cuts in gas supplies from Argentina, the higher cost of inputs and a year with less rainfall, which in turn led to a substitution of hydroelectric generation by thermal production, which produces less value added to the economy.

By sector, mining showed strong growth, mainly as a consequence of the high copper price which averaged over US\$ 3 per pound. However, due to strikes, reduced ore content and other occasional factors, the initial 2007 estimate for the physical production of copper was corrected downward as the year proceeded.

After recording a growth of 6.8% in the first half of the year, the retail sector slowed down considerably in the third quarter, probably affected by high inflation which reflected in a change in private consumption in that period.

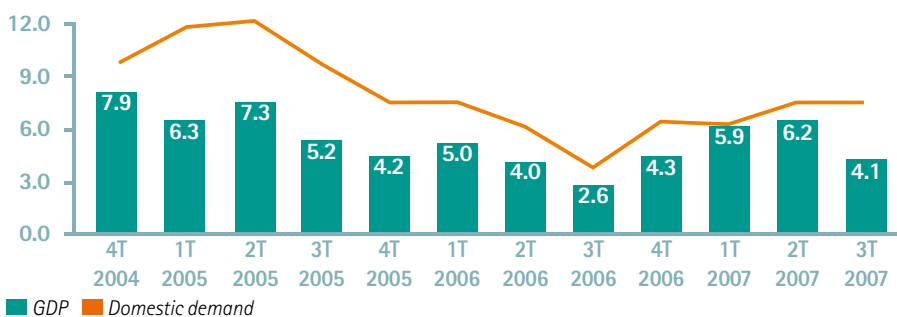
From the domestic spending perspective, private consumption showed strong growth, with expansion at over 7%. Durable goods led this growth although, as in the case of non-durable and services components, they decelerated toward the end of the year, affected by lower credit expansion, a fall in purchasing power and a reduced debt capacity facing households. These factors were partially contained by the increase in employment and wages.

Investment, for its part, showed solid expansion, with an important recovery from the poor results of 2006. Imports of capital goods maintained strong growth during the year, evidenced by the sharp increase in investment in machinery and equipment.

The labor market also recovered, with an average unemployment rate lower than in 2006, with some months showing a difference of more than one percent. However, this trend was reversed toward the end of the year as a consequence of a higher growth in the workforce (an increase of women seeking work) and a considerable deceleration in employment growth that might have been associated with less effective and expected activity.

GDP

(12 Months real change, %)

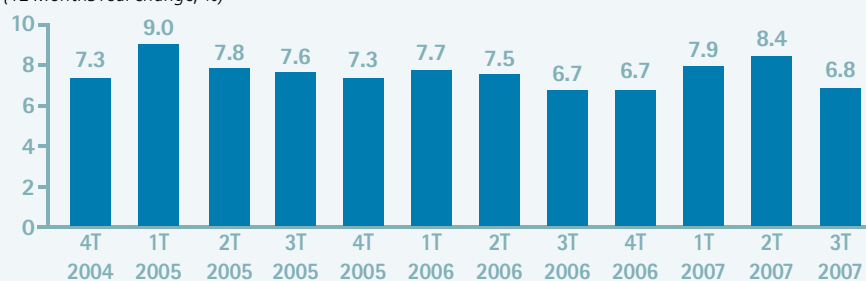


■ GDP ■ Domestic demand

Source: Central Bank of Chile

Private Consumption

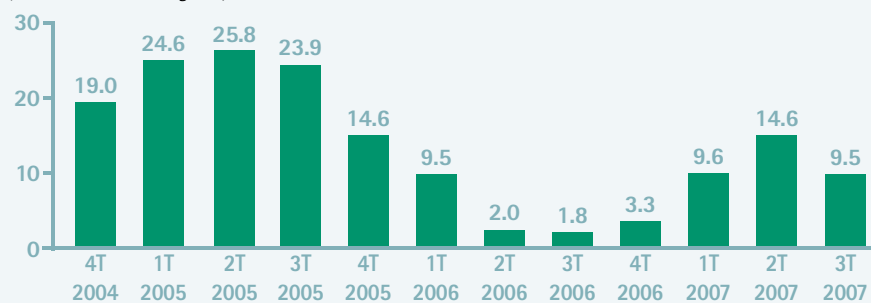
(12 Months real change, %)



Source: Central Bank of Chile

Investment

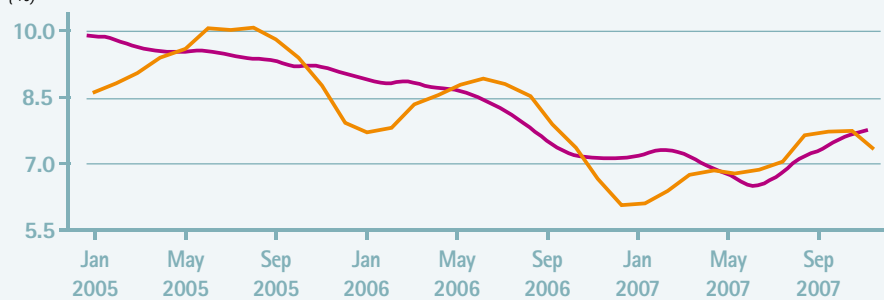
(12 Months real change, %)



Source: Central Bank of Chile

Unemployment Rate

(%)



■ Original ■ Seasonally Adjusted

Source: National Institute of Statistics

Price and Monetary Policy

Inflation rate during 2007 accelerated sharply and closed the year at a surprising 7.8%. This was the result of a combination of elements, mainly the strong increase in the international prices of food and fuels, internal climatic factors that impacted on the prices of fruit and vegetables, an increase in electricity charges (because of the higher costs of generation due to the substitution of gas by diesel and coal), seasonal factors and, to a lesser extent, the secondary effects related to the inflationary trend of the last months.

Food prices, principally vegetables, were affected from July onward by the harsh 2007 winter and reduced water supplies. Dairy products and some grains that are traded internationally felt the impact of rises in international prices from the second quarter of the year due to strong global demand and very tight supplies. In addition, there was the impact of fuels which also showed gradual rises during the year because of tight global supplies and other factors, geopolitical and speculative, that influenced the crude price.

The central bank, expecting an early reversal of food prices and concerned about signs of a slowing down of activity, decided

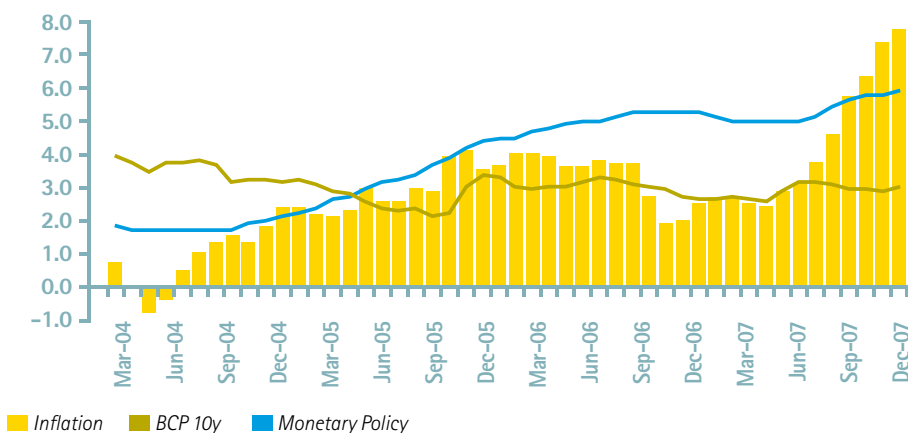
to maintain its monetary policy rate (MPR) at 5% from January to June. However, as food prices continued to raise inflationary pressures, it decided in July to apply a policy of gradual adjustment, increasing the rate on four occasions until reaching 6% in December. With these rises, the central bank is trying to break the second-round effects and prevent long-term inflation expectations from moving away from its 3% objective.

Long-term interest rates remained on average below the range of levels reached the year before. The average real long-term interest rate (BCP10y) therefore declined marginally from its level in 2006, from 3.0% to 2.9%.

For the sixth consecutive year, fiscal policy was marked by compliance with the 1% of GDP structural surplus rule. Under this scheme, and as a result of a copper price far exceeding its long-term value, the effective fiscal surplus was more than 8% of GDP. This prudent fiscal policy was a fundamental factor in the up-grade of the sovereign credit rating granted by Standard and Poor's in December, to A+ from A, exceeding in one section the ratings granted by Moody's and Fitch Ratings. The last-named agency also improved its outlook for Chile from stable to positive, anticipating a possible improvement in the credit rating.

Inflation and Interest Rates

(%)



Source: Central Bank of Chile

Foreign Trade

The high copper price was again a basic factor in Chile's trade surplus in 2007. This mineral reached an average price of US\$ 3.2 per pound, 5.9% higher than that for 2006.

The trade balance showed an estimated surplus of US\$ 24,456 million, again breaking the record set in 2006. Exports of goods grew by close to 18% to US\$ 68,296 million, benefiting from the increase in the terms of trade in 2007.

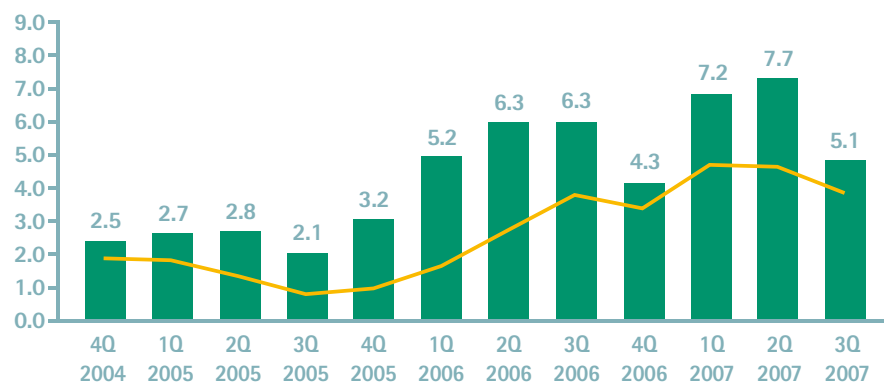
The strong growth in domestic demand and the further appreciation of the peso, continued to drive imports which showed growth of 22% over 2006, to a value of US\$ 43,840 million.

Services and net investment income partially offset the trade surplus to produce a current account surplus of around US\$ 6,400 million, equivalent to 3.8% of GDP.

Regarding the composition of Chilean exports, copper was notable with a share of close to 70% of total shipments in dollar terms. Industrial exports, led particularly by foods such as salmon, represented close to 28% of Chile's exports in 2007.

Our principal trade partners continued to be the Asian countries as a whole, accounting for around 34% of trade. The European Union represented 20% of foreign trade and the United States 14%.

Foreign Trade Trend



■ Trade Balance (MMMUS\$)

■ Current Account (% over GDP)

Source: Central Bank of Chile

Prospects for the Global Economy in 2008

It is expected that the global economy will show in 2008 a growth below that seen in 2007, but maintaining a solid dynamism, driven particularly by high growth rates of China, India and other emerging countries that will become the engine of the global economy. The latest estimates suggest that global expansion will be around 4.8%, a level that is still auspicious compared to the historical average

According to the latest information available, it is believed that the United States will experience a deceleration compared to 2007, projecting a real GDP growth of between 1.5% and 2.0%. Investment in housing will continue to be sluggish while private consumption will show a moderate decline, affected by inflation, still high energy prices and a somewhat more restrictive access to credit. The most probable scenario contemplates that the Federal Reserve Bank will maintain its expansive direction in monetary policy, particularly in the first half of the year, in response to the activity indicators that show a marked slowing down of growth.

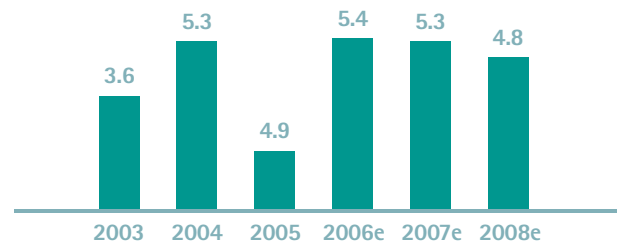
The Euro Zone will also show some deceleration in its rate of growth compared to 2007, affected by the appreciation of the euro, among other things. Regarding its monetary policy, it is very probable that the adjustment process has reached its end despite persisting price-level pressures. However, a decline in activity more pronounced than expected, as a result of the slower growth in the United States and adjustments in the European property market will lead the central bank to maintain the policy interest rate stable or even follow a more expansive policy.

In China, the government will continue to try to reduce its GDP growth to a more sustainable level. The appreciation of the Yuan should continue during 2008 but probably at a slower rate than optimal, which could generate a greater impulse of inflation as seen in late 2007. On the other hand, the Japanese economy should grow by around 1.4% in 2008, maintaining a very expansive monetary policy and trying to control the deflationary phenomenon which has still not been fully overcome.

With a still favorable external scenario, Latin America is projected to show growth bordering on 4.5% in 2008, in line with the deceleration of the global economy and lower commodity prices. Brazil will decelerate due to reduced terms of trade while Mexico will follow the United States economy. Notable will be the high growth rates of Peru and Argentina, although in the latter case, expectations of inflation have been rising considerably to levels of over 10%.

Global Economy Projections

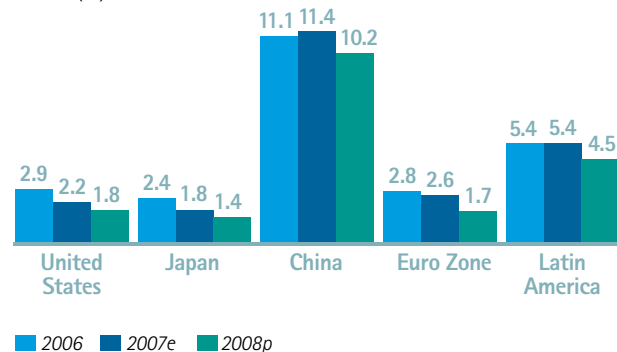
(Global GDP Growth, %)



Source: World Economic Outlook. International Monetary Fund. October 2007. Monetary Policy Report. Central Bank of Chile. January 2008

Global Economy Projections

Growth (%)



Source: World Economic Outlook. International Monetary Fund. October 2007. Monetary Policy Report. Central Bank of Chile. January 2008

Prospects for the Chilean Economy 2008

Chile's economic prospects for 2008 are stable although with a high degree of uncertainty due to the probable deceleration of the global economy and the possibility that the phenomena that have affected its activity in recent years will repeat themselves. This leads us to forecast growth of something below that of 2007. In any case and as already commented above, it is believed that external conditions will remain favorable which, together with the country's solid financial position, will sustain growth of around 4.8%, slightly below the economy's potential GDP which is estimated to be 5%.

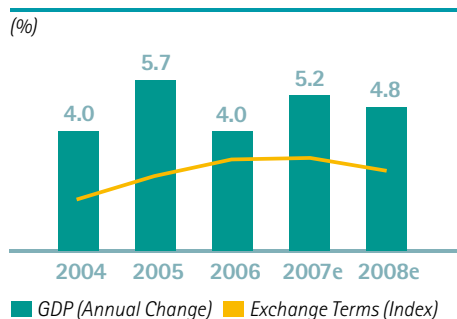
In terms of domestic demand, it is believed that private consumption will slacken in 2008 due to a more restrictive monetary policy, the effect of reduced disposable incomes following high rates of inflation, and household debt levels with little room for the values suggested by the fundamentals. In addition, job creation should be somewhat lower than in 2007. Investment, on the other hand, will continue its high growth rate and faster than GDP growth, although the monetary adjustment could adversely affect this variable. The projection of real growth in private consumption for 2008 is 6.0%, while investment should grow by around 8.8%.

Regarding the productive sectors, investment will be led by the energy and mining, sectors that will concentrate two thirds of all investment projected for 2008, with an estimated amount of US\$ 7,200 million.

Industry could suffer a pronounced deceleration as a result of the permanence of factors already present in 2007 and the base effect associated with the new wood pulp mills opened during the year. In addition, the expected deceleration of the United States' economy would continue to impact directly on the wood and its manufactured products export sectors.

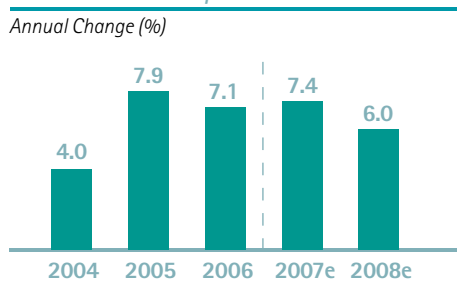
Retail trend suggests an even tighter context than 2007, linking the behavior of internal and external variables. The internal variables of greatest impact will be inflation and the lower growth in GDP and private consumption, while the principal external variable will be the behavior of the terms of trade, especially with respect to energy costs, oil prices and the copper price.

Chile's GDP Growth



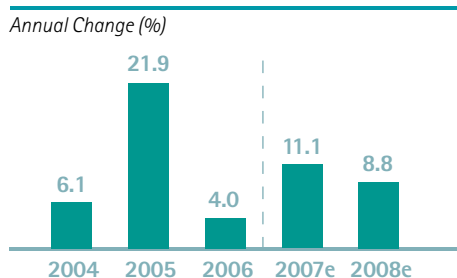
Source: Central Bank of Chile, Banco de Chile

Private Consumption



Source: Central Bank of Chile, Banco de Chile

Investment



Source: Central Bank of Chile, Banco de Chile

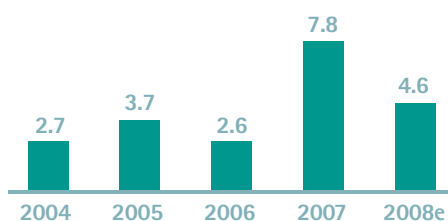
The forecast of inflation carries a high degree of uncertainty due to fluctuations in prices on the international markets which constantly surprised the market in 2007, and the degree of present indexation of the Chilean economy after several years of low inflation. The forecast of the consumer price index for December 2008 is around 4.6%, incorporating the effect of a delayed reversal of food prices and containment of the second round effects through a more restrictive monetary policy. It is highly probable that the monetary policy interest rate will be between 6.25% and 6.50% during the first quarter and then remain stable or even revert during the course of the year. This will depend on trends in economic activity and prices which should show a downward trend in their annualized rate only after mid 2008.

Regarding unemployment, estimates suggest that its level will slightly increase over those of 2007 and there will be a fall in employment growth due to the economy's reduced dynamism. It is also expected that expansion of the workforce will be very similar to that seen in 2007, estimating that the average unemployment rate will remain at levels close to 7.2%.

Finally, in the external sector, it is believed that conditions will remain favorable in terms of the value of our principal exports. The average copper price in 2008 should be around US\$ 2.9 per pound, below that of 2007 in line with slower growth in the global economy and a possible appreciation of dollar globally. This will enable exports to reach close to US\$ 67 billion, similar to 2007. On the other hand, imports are forecast to be around US\$ 50.2 billion, with growth of some 15% over 2007, justified by the still high dynamism in domestic demand. The trade balance therefore should be about US\$ 16.8 billion, permitting a current account surplus of around 0.8% of GDP.

Inflation Rate

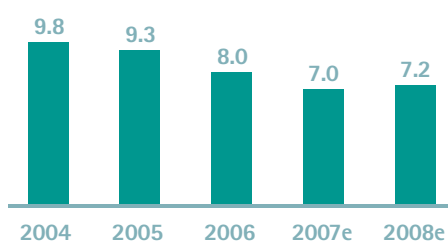
(%)



Source: National Institute of Statistics, Banco de Chile.

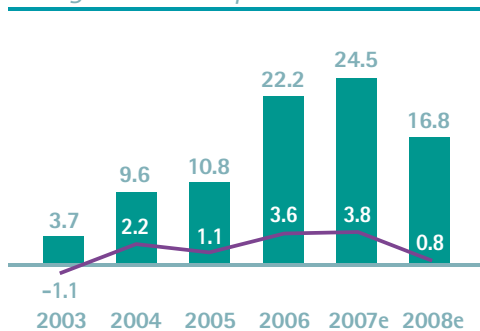
Unemployment Rate

(%)



Source: National Institute of Statistics, Banco de Chile.

Foreign Trade Prospects



■ Trade Balance (MMMUS\$) ■ Current Account (% over GDP)

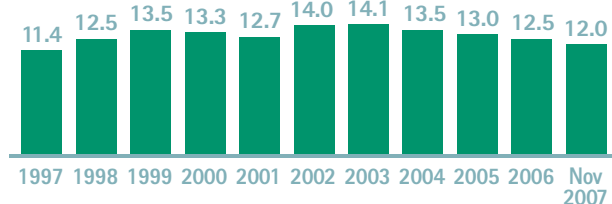
Source: Central bank of Chile, Banco de Chile.

Changes and Trends

The Chilean financial system has been defined by various international analysts as the best positioned in Latin America. Notable among other factors is its modern and efficient regulatory system, the industry's capacity to expand its sphere of action into new segments, the maintenance of solid levels of capitalization, significantly above the minimum legal requirements, and with a high level of solvency as reflected in the ratings granted by private credit-rating agencies. There is also sustained progress in terms of operating efficiency and a high level of profitability with credit risk indicators that evidence the use of good practices and standards in credit management.

Basel Index

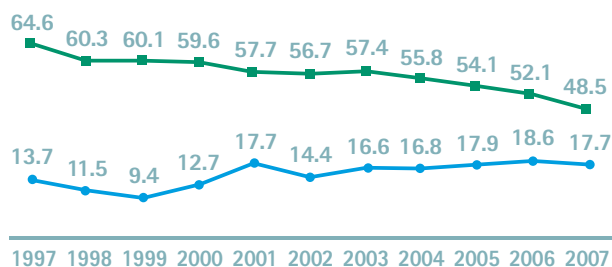
(%)



Source: Superintendency of Banks and Financial Institutions.

ROC and Efficiency

(%)

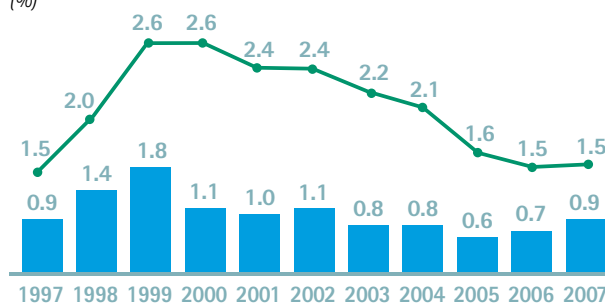


■ Return on Capital & Reserves ■ Efficiency Ratio

Source: Superintendency of Banks and Financial Institutions.

Asset Quality

(%)



■ Net Provisions / Average Net Loans

■ Allowance for Loan Losses / Loans

Source: Superintendency of Banks and Financial Institutions.

A study recently prepared by the international credit-rating agency Standard and Poor's, measuring the relative strength of the financial system among countries through a series of financial parameters, classified Chilean banks in Group 3 out of a total of 10 categories (Group 1 being the strongest and Group 10 the weakest). This same group includes financial systems considered at a high international level like Austria, Japan and Portugal. According to this measure, Chilean banking obtains the highest ranking among all Latin American banking, followed by Mexico in Group 4.

Changes in the principal indicators of Chilean banks are reflected in the consolidation of the processes and initiatives carried out by the industry, particularly in the last five years. These include a greater financial penetration, evidenced by higher levels of bank service penetration and the incorporation of new segments, and the expansion of distribution networks, both physical and remote.

Banking Industry Country Risk Assessment (Bicra¹)

Group 1	Group 2	Group 3	Group 4	Group 5
France	Hong Kong	Austria	Greece	Brazil
Spain	Italy	Chile	Iceland	South Africa
Switzerland	New Zealand	Japan	Israel	Kuwait
United Kingdom	Norway	Portugal	Taiwan	Estonia
United States	Singapore		Mexico	Slovenia

Group 6	Group 7	Group 8	Group 9	Group 10
China	Latvia	Egypt	Costa Rica	Bolivia
Bulgaria	Panama	Colombia	Lebanon	Jamaica
Peru	Turkey	Argentina	Nigeria	Ecuador
Poland		Indonesia	Guatemala	Venezuela
Thailand		Uruguay	Vietnam	Ukraine

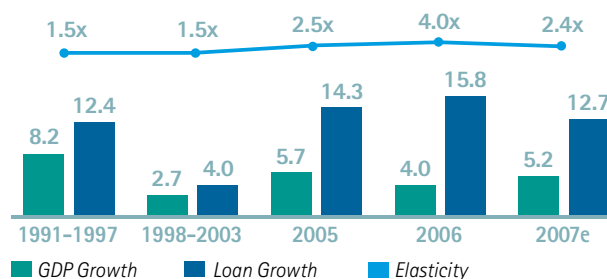
Source: Standard & Poor's.

As a result of this and a favorable economic environment, the industry's expansion in the last three years has been impressive. The relationship between total loan growth and growth of the country's gross domestic product reached an average of 3 times, far above the historic average of 1.5 times.

It is important to mention that the acceleration in the growth of industry business volumes in recent years has using part of the system's equity capacity. Banks have therefore been especially active in issuing and placing bonds, both straight and subordinated, and in making capital increases. This has enabled it to maintain solid solvency ratios, thus granting sustainability to one of the principal assets of the Chilean financial system.

Loans / GDP Multiple

(%)



Source: Central Bank of Chile, Superintendency of Banks and Financial Institutions.

(1) The study called "Banking Industry Country Risk Assessment", known as BRICA, was made in August 2007 by Standard & Poor's and reflects the relative strengths and weaknesses of different financial systems. It is an integral analysis of banking that compares the financial bases and the probability of a banking crisis, among other things.

Profile of Chilean Banking in 2007

As of December 2007, the Chilean banking system comprised 25 banks, 21 Chilean domiciled and 4 branches of foreign banks. Compared to 2006, the total of institutions reduced from 26 banks following the acquisition of Banco del Desarrollo by Scotiabank Sud Americano, whose financial statements began to be published on a consolidated basis from November 2007. There were also other ownership changes, with important participations by foreign banks.

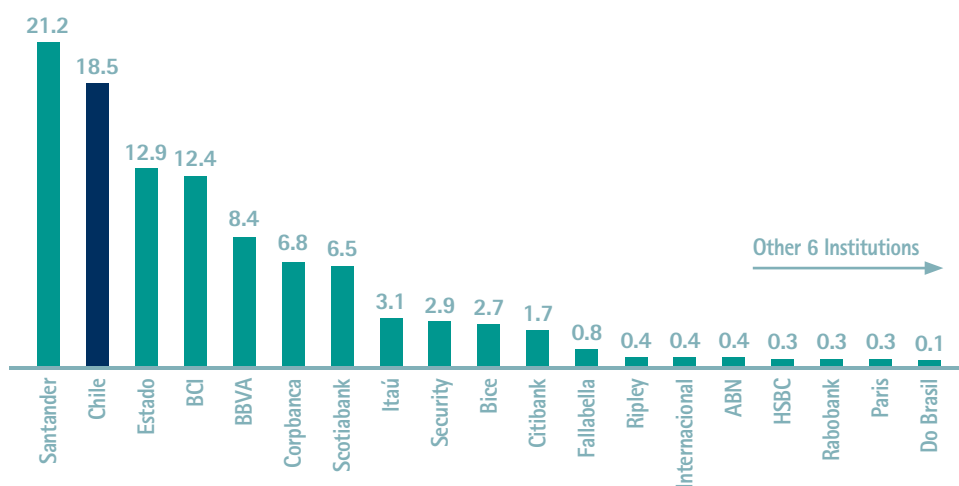
In line with the positive change in the Chilean credit market, the number of branches and automated teller machines (ATM) also rose. Banking branches increased from 1,723 in December 2006 to 1,847 in October 2007, while ATMs increased by 554 units over the same period to a total of more than 5,800 machines throughout the country. There was also an increase in industry staff numbers, from 42,714 at December 2006 to 48,278 at October 2007, mainly due to the direct employment of previously outsourced staff as a result of the coming into effect of the Sub-Contracting Law.

In terms of concentration, the country's four largest financial entities (Banco Santander, Banco de Chile, Banco Estado and BCI) accounted for 65% of the loans market, down from 66.2% in December 2006. However, if we analyze the largest eight institutions, these increased their share from 87.6% in December 2006 to 89.7% in December 2007. Notable within this group was the reduction in market share of Banco Santander, from 22.2% to 21.2% and the larger market share of Scotiabank following its acquisition of Banco del Desarrollo.

Despite the heavy concentration of the Chilean banking industry, the principal indicator of industry concentration (the Herfindahl Hirschman index) has remained stable and is currently in the moderate zone of concentration of the banking industry.

Principal Chilean Financial Institutions and their Market Shares in Terms of Loans net of Interbank, at december 2007

(%)



Source: Superintendency of Banks and Financial Institutions.

Recent Changes in the Industry

Among the principal changes and announcements during 2007 was the strategic association agreed by Quiñenco S.A. and Citigroup Inc., which permits the indirect entry of Citigroup in the ownership of Banco de Chile.

The main objective of this association is to merge Banco de Chile with Citibank Chile on January 2, 2008, in which the two entities will own 89.5% and 10.5% respectively of the merged bank. The new entity consolidates a market share of around 20% in loans, maintaining Banco de Chile's current position in second place in the industry but with a substantially reduced gap with Banco Santander. With the consolidation of the respective consumer divisions, Banco CrediChile and Atlas, the merged entity will be the leader in this segment and displace Banefe, of Banco Santander, from its top position.

For its part, Scotiabank Sud Americano announced on October a public share offering for 100% of the shares of Banco del Desarrollo. The offering was declared successful when acceptances were received for 99.49% of the shares of that bank.

Following the purchase, Scotiabank Sud Americano will have 180 days to set the date for completing the merger with Banco del Desarrollo. This could occur within a maximum term of 24 months according to the authorization of the Superintendency of Banks and Financial Institutions. This transaction is the largest of the Scotiabank group outside Canada.

Other important ownership changes in 2007 were the acquisition of Banco Internacional by Inversiones del Rosario S.A., and those of HNS Banco and ABN AMRO Bank Chile by Rabobank and Barclays/RBS respectively.

Regulation and Supervision

During 2007, the Superintendency of Banks and Financial Institutions (SBIF) maintained its emphasis on the incorporation of international accounting standards (IFRS) and supervision (Basel II), the improvement in information systems, the entry into effect of the regulation of issuers of non-bank credit cards and the strengthening of assistance mechanisms for bank customers.

It also progressed in the application of the concept of self-regulation, demanding greater responsibility of top management in the regulated entities, in order to place the responsibility for banks' performance on their respective boards of directors.

For its part, the Central Bank of Chile in January replaced the regulations on financial borrowings and trading that govern banks in Chile, contained in Chapter III.B.1 of its Financial Regulations Compendium. The new regulation, the result of revision work carried out jointly with the SBIF, takes into account advances made by the economy and financial system in recent years, plus international recommendations and best practices on the subject.

In March, the government announced a combination of measures and complementary law bills for encouraging growth, including a third reform of the capitals market. This would include the approval of the 4% income tax rate -applicable to all foreign lending institutions-, the improving of regulations relating to repurchase agreements and the broadening of the application of the securities market law governing the guarantees regulations so that they apply to financial guarantees between institutions.

In order to contribute to the development of the Chilean financial market, legal and regulatory changes will also be proposed for facilitating the use of the Chilean peso in international financial transactions. The connection will also be promoted of our markets with the global settlement and custody systems and congress will be sent a bill for improving the tax framework for derivative transactions in Chile.

In May, congress approved the second capital markets reform (MKII) which includes a package of initiatives focused on promoting the development of the risk capital industry, reducing transaction costs on secured financing operations, and improving corporate management rules and regulation by the regulatory bodies. A series of modernizations were also introduced to various legal texts such as the General Banking Law, Decree 3,500 governing pension funds and the insurance company law, in order to update these to meet the most recent developments in the capital markets.

With respect to the General Banking Law, changes were introduced to the provisions relating to the technical reserve and the definition of sight deposits. In particular, the concept of paid capital and reserves was replaced by total capital, which implies broadening the limit at which institutions have to make the technical reserve, which in turn permits investing in instruments for any term issued by the Central Bank of Chile or the Treasury.

Regarding the definition of sight deposits or obligations, the new legal framework considers these to be those whose payment may be demanded unconditionally. The legal framework was also improved for banking transactions with derivative products, which should respect the rules and limits established by the Central Bank of Chile.

The Ministry of Finance presented in May a proposal for modernizing the systems for the clearing and settlement of financial instruments. Essentially, the creation of a regulatory framework is suggested that permits the functioning of clearing houses and central counterparty entities. The main purpose is to facilitate the convergence of the capital market with international standards on the matter. It is therefore sought to strengthen the efficiency and security of the securities clearing and settlement systems through the incorporation of mechanisms for a proper management and mitigation of the risks to which these are exposed. The strengthening of the existing legal framework is also contemplated, considering the incorporation of the concepts of novation, irrevocability and stability, among other amendments. It is also proposed to incorporate securities lending transactions as a mechanism for facilitating settlements.

Business Volumes

The country's economic and financial stability permitted maintaining in 2007 the dynamism that financial system loans have been showing since 2004. At December 2007, total loans net of interbank lending amounted to Ch\$ 63,331,009 million, a growth of 12.7% in real terms over December 2006, although lower than the growth rate of 15.8% the previous year.

This expansion was mainly based on loans to companies which showed an upward trend marked by the expansion in investment. Commercial loans at December 2007 rose by 14.8% in real terms in twelve months.

Housing loans also produced a better performance compared to 2006, which is partly the consequence of a faster rate of new homes sales and interest rates which on average were at levels very similar to those in 2006. At December 2007, housing loans showed an annual growth of 15.6% in real terms, slightly higher than the 15.2% growth seen in 2006.

Consumer loans grew by just 7.4% in real terms, much below the 21.4% growth seen in 2006. This is explained by the downward cycle shown in private consumption throughout the whole year, higher short-term interest rates and restrictions on the offer of products due to the increase in risk noted in the retail segment, especially people on low incomes, a sector that grew strongly in previous years.

Regarding the financial system's sources of funding, which sustained the expansion in total loans, notable were total deposits which financed 80% of loans at December 2007 and 70% of the flow of loans over twelve months. Average time deposits and sight deposits net of clearing showed increases of 9.8% and 12.0% in real terms respectively, notable being the increase of more than 190,000 checking accounts in the period December 2006 - September 2007.

Also notable was the strong growth in straight bonds which doubled compared to December 2006. This increase undoubtedly responded to expectations of increases in long-term interest rates and to the availability of medium and long-term funds of the pension funds and life insurance companies.

Chilean Financial System Loans

	dec - 06	dec - 07	Real Change
Loans net of Interbank	56,172,530	63,331,009	12.7%
Commercial Loans	23,217,515	26,653,462	14.8%
Other Mortgage Loans	7,954,437	10,138,627	27.5%
Consumer Loans	7,234,256	7,768,193	7.4%
Note-funded Mortgage	5,193,945	4,563,495	-12.1%
Contingent Loans	4,735,816	5,220,108	10.2%
Foreign Trade Loans	3,941,497	4,292,657	8.9%
Leasing Contracts	2,643,371	2,987,687	13.0%
Other Outstanding Loans	827,592	1,228,094	48.4%
Past-due Loans	424,101	478,686	12.9%

Source: Superintendency of Banks and Financial Institutions.

Results

The year 2007 was highly successful for the Chilean financial system, both in terms of results and profitability, and in operating efficiency and risk ratios. Net income for the year amounted to Ch\$ 988,463 million, a 2.9% real increase over 2006 while the return on capital and reserves was 17.6% which, although below the year before, was above the average seen since 2000.

The Chilean banking system's gross margin increased by 12.9% in real terms over 2006, based on a solid growth in loans, higher nominal interest rates which increased the income from sight deposits and the effects of inflation higher than that expected by the market. On the other hand, operating expenses rose by

5.4% in real terms. This favorable change enabled the system's efficiency ratio to improve once again, reaching a record level of 48.6%, comparing with 52.1% in 2006.

Provision for loan losses rose by 45.7% in real terms over 2006, a smaller increase than that recorded that year of 48.5%. It is important to note that the relationship between the provision for loan losses and average net loans suffered an increase from 0.74% in 2006 to 0.98% in 2007. This reflects the higher degree of bank penetration in the Chilean economy, gradually incorporating segments offering higher margins but also higher risks, thus continuing with the upward trend shown by this indicator since 2005, when the level was 0.6%.

While higher-than-expected inflation had positive effects on the gross margin, the associated impact of monetary correction on the results of the financial system was also considerable, reducing Ch\$ 238,939 million for the year.

Regarding the quality of assets, the past-due to net loans ratio remained practically the same as at December 2006, reflecting the favorable economic conditions for the retail and business markets during the year. This figure ends the declining trend in this ratio since 2002, possibly reflecting the change in composition of the industry's mix of assets, associated with the progress and deepening of the economy's banking penetration process.

Finally, the capital adequacy ratios remained at similar levels to the end of 2006 despite the fast growth in loans, but strengthened by large capital increases by various financial institutions in the country

Chilean Financial System Results (2)

	dec - 06	dec - 07	Real Change
Operating Revenue	3,105,851	3,507,549	12.9%
Operating Expenses	-1,618,851	-1,706,077	5.4%
Net Margin	1,487,000	1,801,472	21.1%
Provision for Loan Losses	-382,712	-557,613	45.7%
Operating Income	1,104,288	1,243,859	12.6%
Non-operating Income	57,248	-71,297	-
Other Non-operating Income	-20,307	20,582	-
Results of Foreign Branches	-4,408	641	-
Income from Minority Investments	144,717	146,419	1.2%
Price-level Restatement	-62,754	-238,939	280.8%
Pre-tax Income	1,161,536	1,172,562	0.9%
Provision for Taxes	-203,782	-184,099	-9.7%
Net Income for the Year	957,755	988,463	3.2%

Source: Superintendency of Banks and Financial Institutions.

Main Financial System Indicators

	dec - 06	dec - 07
Profitability		
Net Income / Capital and Reserves	18.61%	17.60%
Net Income / Average Equity (ROAE)	16.80%	16.50%
Net Income / Average Assets (ROAA)	1.31%	1.27%
Fee Income / Operating Revenues	16.04%	14.01%
Efficiency		
Operating Expenses / Operating Revenues	52.10%	48.60%
Operating Expenses / Average Interest-Earning Assets	2.70%	2.57%
Asset Quality		
Past-due Loans / Net Loans	0.75%	0.76%
Provision for Loan Losses / Average Net Loans	0.74%	0.98%
Risk Ratio	1.48%	1.52% *
Capital Adequacy		
Total Capital / Risk-Adjusted Assets	12.50%	12.00% *
Basic Capital / Total Assets	6.60%	6.60% *

* As of November 2007

Source: Superintendency of Banks and Financial Institutions.

(2) For comparison purposes, the results of the financial system at December 2007 published by the SBIF have been adjusted to exclude the impact of the acquisition of Banco del Desarrollo by Scotiabank Sud Americano.

Prospects for 2008

The economic scenario projected for 2008 foresees a favorable environment for the Chilean banking system. It is estimated that total loans will grow by around 10.3% in real terms, demonstrating however some deceleration with respect to the 12.7% growth seen in 2007.

In terms of products, there will be less growth in housing loans, associated with a lower level of activity in 2007 and an unemployment rate that should rise slightly compared to the year before.

Consumer loans will show a slight recovery from the figure at the end of 2007. During that period, the greater volatility of global and local stock markets could have generated an effect on people's real disposable income. In any event, growth of 10.5% is projected for 2008, a recovery that is limited by a context of higher short-term interest rates.

Finally, the rest of the financial system's loans, mainly commercial loans, contingent loans and foreign trade financing, should show real growth of around 10.0% following the accelerated expansion of 2007 (12.9%). Higher interest rates and investment that will be lower than the previous year are some of the factors that will determine the evolution of these kinds of credit products.