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Banco de Chile Performance in 2007

Banco de Chile



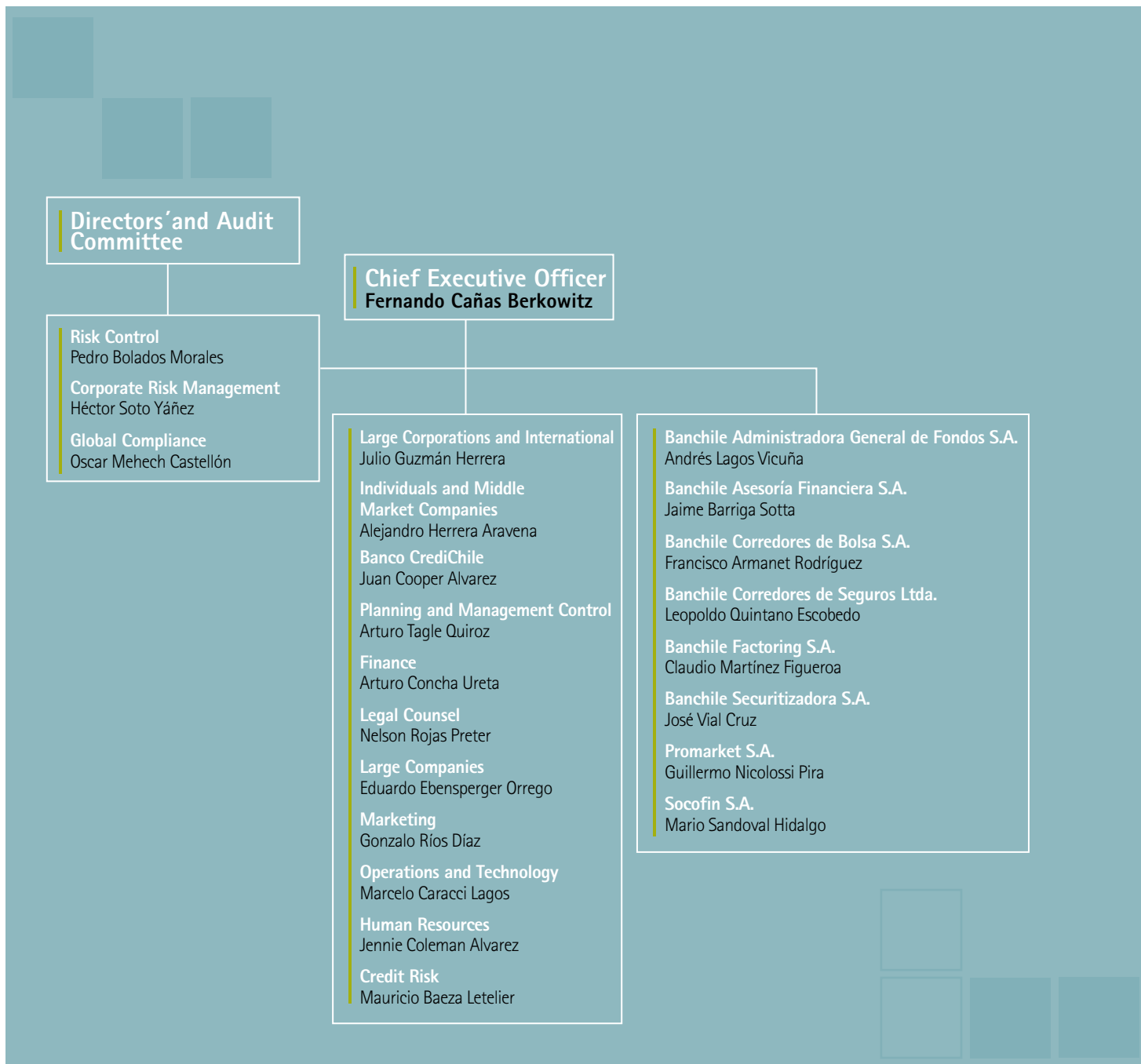
Banco de Chile Performance in 2007

Financial Information 2005 - 2007

	2007	2006	2005	% Change 2007/2006
Results for the Year (millions of Ch\$ of december 2007)				
Operating Revenues	691,608	602,329	568,382	14.8%
Operating Expenses	335,576	324,236	304,617	3.5%
Net Provisions for Loan Losses	52,943	36,787	25,949	43.9%
Net Income	242,288	209,696	198,173	15.5%
Earnings per Share (Ch\$ of December 2007)				
Earnings per Share (Ch\$)	3.37	3.04	2,91	10.9%
Earnings per ADS (Ch\$)	2,019	1,822	1,747	10.8%
Earnings per ADS (US\$)	4.07	3.41	3.40	19.4%
Book Value per Share ⁽¹⁾ (\$)	14.60	12.98	12.48	12.5%
Number of Shares (millions)	71,996	69,038	68,080	4.3%
Profitability Ratios				
Net Financial Margin ⁽²⁾	4.35%	4.09%	4.15%	
Net Fee Income / Operating Revenues	24.69%	25.36%	27.13%	
Net Fee Income / Average Interest-Earning Assets	1.40%	1.39%	1.54%	
Operating Revenues / Average Interest-Earning Assets	5.67%	5.46%	5.69%	
Return on Average Assets	1.78%	1.68%	1.75%	
Return on Average Equity	27.42%	25.00%	26.66%	
Return on Capital and Reserves	29.95%	30.54%	30.41%	
Capital Ratios				
Basic Capital / Total Assets	5.50%	4.97%	5.52%	
Basic Capital / Risk-Adjusted Assets	7.01%	6.75%	7.49%	
Total Capital / Risk-Adjusted Assets	10.69%	10.67%	11.23%	
Credit Quality Ratios				
Past Due Loans / Total Loans	0.52%	0.64%	0.87%	
Allowances for Loan Losses / Past Due Loans	262.8%	235.0%	198.0%	
Allowances for Loan Losses / Total Loans	1.37%	1.51%	1.73%	
Net Provisions for Loan Losses / Average Loans	0.50%	0.39%	0.31%	
Operating and Productivity Ratios				
Operating Expenses / Operating Revenues	48.52%	53.83%	53.58%	
Operating Expenses / Average Total Assets	2.47%	2.60%	2.69%	
Loans per Employee (MMCh\$)	998	917	873	

(1) Considers only Capital and Reserves at the end of each year.

(2) Net interest revenue, foreign exchange transactions and gains from forwards derivatives instruments, net.





Dear customers, staff and shareholders,

It gives me great satisfaction to be able to address you in the conviction that the commercial effort made during recent years, and which has been constantly focused on offering our customers a service of excellence, has borne fruit. This was demonstrated during the previous year when Banco de Chile once more produced record profits and recorded the best return in the Chilean banking system.

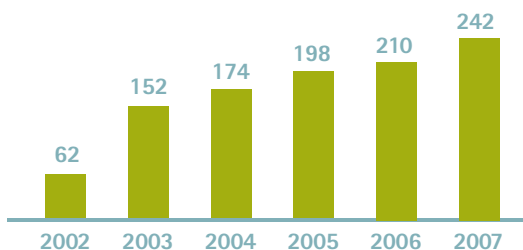
We have consistently concentrated on three main objectives: growth, efficiency and excellence. To increase our portfolio of assets in the segments offering the highest returns, to increase the customer base to create more efficient business volumes, and to promote an organizational culture of excellence and a maximum development of our human resources, are the strategic lines that sustain our mission and that enable us now, together with our staff, to feel proud in presenting the achievements of the year in this report.

Throughout the year, with this mission clearly installed in a committed human team, we have continued to perfect our business model which is capable of recognizing the different segments for which to develop new products, services and technologies, thus achieving important progress in terms of growth, efficiency and profitability. In addition, there was the great landmark of the approval of the merger with Citibank Chile, an operation that coincides with our strategy, creating synergies and strengthening the principal business areas.

In 2007, Banco de Chile produced a new record for the third consecutive year in terms of results, with a net income of Ch\$242,288 million, which represents an increase in real terms of 15.5% over the year before. This result enables us to show an annual compounded growth in the Bank's net income of 31% in real terms over the last five years.

Net Income

(Billions of pesos of december 2007)



Profit Change 2007 / 2006



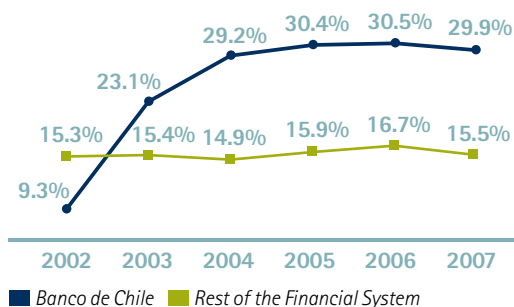
It is equally relevant to appreciate that this result represents the maximum achievement in terms of return on the capital invested by our shareholders. Banco de Chile reached a return on capital and reserves of 29.9% in 2007, once again the highest of all institutions in the Chilean financial system and surpassing the 15.5% average obtained by the rest of the banking industry.

With more than a 14% increase in real terms in twelve months, gross operating income grew by much more than the increase in operating expenses, mainly due to a more profitable loans structure, the increase in non-interest bearing liabilities such as checking and sight accounts, greater fee income generated, and the favorable impact of inflation on the financial position denominated in Unidades de Fomento. The successful commercial management generated a 13% increase in the number of debtors, 11% in the number of checking accounts and 14% in the stock of credit cards.

The positive results of Banco de Chile in 2007 were obtained in a context of economic expansion at both the global and country levels, despite the deceleration in growth of the financial industry compared to 2006. As of December 2007, the system's total loans net of interbank lending amounted to Ch\$63,331 billion, a real growth of 12.7% compared to December 2006, an expansion however that was below the strong 15.8% recorded in 2006. The important growth rates of the financial system in recent years reflect the strong process of bank penetration that has been occurring in the country, thanks to which large sectors of the population, and also micro-businesses, have begun to be introduced to the use of bank products and services.

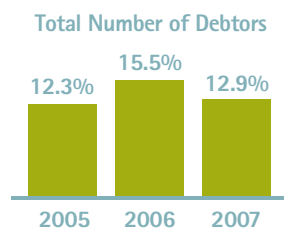
Banco de Chile meanwhile increased its consolidated volume of loans, net of interbank lending, by 14.5% in real terms during the year. Particularly notable was the growth in home mortgage, consumer and commercial loans, which rose by 18.1%, 9.2% and 16.8% respectively in real terms, all superior to the average increases reported for the system, thus enabling us to increase our market shares in these products, especially in the first case.

Return on Capital and Reserves

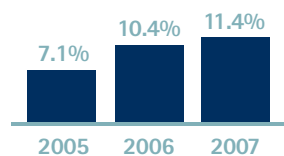


Debtors and Checking Accounts

(Annual change)



Total Number of Checking Accounts



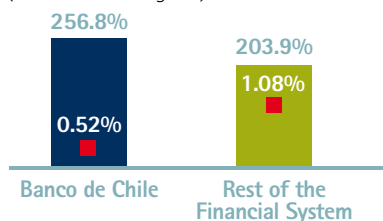
In this context, we have been able to consolidate a profitable commercial strategy that gives priority to the segments offering the best returns, like the retail segment, with a high-quality loan portfolio. During 2007 therefore, we made an important commercial effort in the retail segments in which we achieved the growth expected through the Individuals and Middle Market Companies Division and the Banco CrediChile Division. Loans in the individuals segment increased by 13.3% in real terms to Ch\$3,597 billion at the end of the year. For their part, the consumer loans of Banco CrediChile totaled more than Ch\$270 billion, representing a real growth of 12.2% over the previous year.

The wholesale market of Banco de Chile, comprising large national and international companies and corporations, financial intermediaries and institutional investors, produced total loans of Ch\$6,501 billion, which represents 55% of the Bank's total loans and a 20% increase in real terms over the year before.

These results are heavily based on the joint work of the various divisions and subsidiaries of the Bank, which has permitted an important increase in cross-selling and a better integration between products. The whole group of subsidiary companies thus contributed 11% of the consolidated net income.

Portfolio Coverage: Allowances for Past-Due Loans

(Unconsolidated figures)



■ Net Provisions / Average Net Loans

It should be pointed out that this important expansion in our volume of business has been covered by a prudent and conservative credit policy, which enables us to have a high-quality portfolio of loans and investments. Despite showing the lowest level of past-due loans in the last 10 years and the lowest among our peers, in proportion to size, Banco de Chile enjoys the highest coverage of its past-due portfolio in terms of allowances, ahead of our principal competitors and the average of the financial system.

The commercial results, as well as those relating to the quality of our portfolio and our processes, are largely due to the constant improvements to our technological and operations platform as a result of the implementation, four years ago now, of a complete project of technological renovation and modernization of systems in the area of business intelligence. This development enables us to consolidate our commercial model based on the production of the information necessary and suitable for the design of specific proposals of value, according to the requirements of each sub-segment of the market, promoting efficiency and the quality of the service provided.

The technological advances continued in 2007. The introduction of Genesis, a new technological system for branch teller positions and cash agencies, both of Banco de Chile and of Banco CrediChile, provides flexibility in teller operations and grants greater security to customers in their transactions. More agile sales models were also developed and the new Siebel investment technology platform for attending customers was made available to investment executives. The transfer of checking accounts, lines of credit, sight accounts and loans of Banco CrediChile to the Bank's new operating system was also completed.

As a result of the satisfactory introduction of the business strategy, plus advances in technological support with greater response levels, we have been able to meet our objective of substantially improving our Bank's level of efficiency. From an operating expenses level of 54 pesos for every 100 pesos of operating income at the end of 2006, the expense level necessary for generating an identical level of income fell at the end of 2007 to just Ch\$49, a reduction of 9% in real terms.

Regarding 2008, we are sure that the challenges will continue. In addition to the commercial, technological and human resources targets, there will be the merger process we are carrying out and which we are certain will reinforce our strengths, developing important operating and commercial synergies in business, customers and coverage.

The merger with Citibank Chile, whose head company is a global leader in corporate and retail banking, with more than 200 million checking-account holders and with a presence in over 100 countries, will enable us to have a larger-scale operation whose benefits go further than the achievement of greater efficiency and profitability. A larger-sized operation permits the limitation of business risks through the diversification associated with a larger customer base and the presence in a broader range of sectors of economic activity. It also provides a greater coverage of attention channels, better access and relations with international suppliers, particularly in the field of technology, and a greater diversification of the sources of finance.

The merger thus enables us to offer global services to our corporate and individual customers, increase the volume of business and number of customers in the mass segments, and incorporate the best practices in the industry in operative aspects and in the handling of large numbers of customers and transactions. The merger will also strengthen our equity base, enabling us to more comfortably face future growth in business volumes.

In the area of the use of brands, effective January 1, 2008, when joint operations began, corporate customers are being attended under the Banco de Chile brand, incorporating the Citibank brand occasionally for specific products and services. Citibank's 14 offices were incorporated into our present Edwards network through a combination of brands, in addition to four offices to the Banco de Chile network.

In this way, the high level of fit between the operations of Citibank, the largest financial services company in the world, and those of Banco de Chile, the Chilean bank with the longest history and best reputation in the country, represents a clear present and future benefit for our shareholders, customers and staff.

We are confident and convinced that these enterprises will allow us to maintain our high standards of service and continue to add value to our corporation, as we have done until now, with the efforts of over 11 thousand staff who are members of the great working team of Banco de Chile and its subsidiaries. It is they who are directly responsible for the success reached and to whom I extend especially my sincerest congratulations and thanks.



Fernando Cañas Berkowitz
Chief Executive Officer

Banco de Chile Results and Analysis

Results for the Year

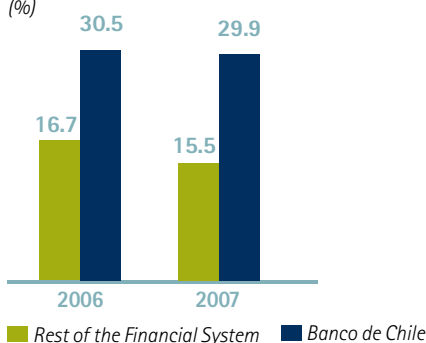
(Millions of pesos of december 2007)

	2007	2006	Change
Net Financial Income ⁽¹⁾	530,751	450,876	17.7%
Net Fee Income	170,743	152,770	11.8%
Gains on Securities Trading	-7,633	7,923	-196.3%
Other Operating Income	-2,253	-9,240	-75.6%
Operating Revenues	691,608	602,329	14.8%
Operating Expenses	-335,576	-324,237	3.5%
Provision for Loan Losses	-52,943	-36,787	43.9%
Other Non-Operating Income & Taxes	-60,801	-31,609	92.4%
Net Income	242,288	209,696	15.5%

(1) Includes Net Interest Revenue, Foreign Exchange transactions and Gains (Losses) from Forward derivatives instruments, net.

Return on Capital and Reserves

(%)



Banco de Chile ended the year 2007 with a new record profit of Ch\$ 242,288 million, a 15.5% increase over the previous year's result in real terms. This outstanding performance enables Banco de Chile to be the number one bank in the Chilean financial system in terms of return on capital and reserves, with a return of 29.9%, substantially higher than the 15.5% registered by the rest of the system.

In terms of business volumes, the Bank's loans net of interbank lending rose by 14.5% in real terms in twelve months, compared to 12.7% for the whole of the financial system. This notable performance, based mainly on the expansion of the customer base, allowed Banco de Chile to strengthen its competitive position within the industry, increasing its market share in loans by 44 basis points, from 18.09% in 2006 to 18.53% at the end of 2007.

The outstanding results of Banco de Chile over the years, particularly in the last few years, both in financial results and in its positioning and market image, have been the result of a wise business strategy and its impeccable execution by the management. Equally important in producing these results is the deep adhesion in complying with our Mission and the commitment of the whole institution with our Corporate Values. In this context, noteworthy during the year were the focus on quality of service, operational efficiency and expansion and strengthening of the customer base, elements that have gradually become the corporation's principal strategic assets.

The increase in the Bank's net income arises mainly from the 14.8% real growth in operating revenues and limited growth in operating expenses of 3.5% in real terms. This favorable situation more than compensated the increase in the provision for loan losses and the higher loss from price-level restatement in the year.

Net Income: Bank, Subsidiaries and Foreign Branches

(Millions of pesos of december 2007)

	2007	2006	Change
Bank (1)	216,487	189,859	14.0%
Securities Brokerage	7,957	6,933	14.8%
Insurance Brokerage	2,128	1,914	11.2%
Financial Advisory	593	1,333	-55.5%
Factoring	1,747	3,635	-51.9%
Securitization	90	-88	-202.3%
Promarket	-340	154	-320.8%
Socofin	352	583	-39.6%
General Funds Management	13,880	10,379	33.7%
Trade Services Limited	151	209	-27.8%
Foreign Branches	-757	-5,215	-85.5%
Total Net Income	242,288	209,696	15.5%

(1) The minority interest has been deducted from the Bank line.

The subsidiaries contributed 11% of the corporation's net income, equivalent to Ch\$ 26,558 million and 6.0% higher in real terms than in 2006. These results include the performance of the General Funds Management and Securities Brokerage subsidiaries, which offset the lower results of the Factoring and Financial Advisory subsidiaries.

The strong performance of the General Funds Management and Securities Brokerage was sustained by their continuous pursue of Innovation and orientation toward the creation of financial products and services to meet the needs of their customers. During 2007, the General Funds Management group launched four new mutual funds and an investment fund. It also established a strategic alliance with Bradesco Asset Management, opening up new investment possibilities for its clients. This subsidiary held its leadership in its market with a share of 23% in terms of average managed assets and at the same time recorded a 33.7% increase in its results.

The Securities Brokerage subsidiary increased its results by almost 15% in real terms to a net income for the year of Ch\$ 7,957 million. The outstanding performance of this subsidiary was mainly based on higher commissions related to share trading (a market in which it retains its leadership), investment banking and its asset management business.

As a result of its greater presence in the mass-consumer segments, the Insurance Brokerage subsidiary substantially strengthened its commission base, enabling it to increase its results by a real 11.2% with respect to 2006, producing a net income of Ch\$ 2,128 million.

During the last quarter of 2006, the Financial Advisory subsidiary took an active part in syndicated loan transactions, debt restructurings and company acquisitions which created an extraordinary level of income. This largely explains the lower results of this subsidiary in 2007.

The weaker results obtained by the Factoring subsidiary are practically fully explained by the impact of a high inflation rate during the year, particularly in the last quarter of the year, as most of the company's loans denominated in nominal Chilean pesos were financed by funds denominated in UF (Unidad de Fomento) provided by the Bank. Nevertheless, the subsidiary maintains its position as the second largest bank-owned factoring subsidiary in the Chile, with approximately 1,500 customers and total portfolio of over Ch\$ 213,000 million.

Regarding our foreign branches, these produced a loss of Ch\$ 757 million in 2007, compared to a loss of Ch\$ 5,215 million in 2006. The branches managed to substantially reduce their operating expenses in 2007 accounted for as advisory expenses and the implementation of the requirements of the American regulatory authorities. However, positive results attained during the first half of 2007 were more than offset by mark to market losses registered in their securities portfolios, mainly caused by the worldwide financial turbulence over the second half of that year.

Net Financial Income

Net financial income produced a 17.7% real increase, from Ch\$450,876 million in 2006 to Ch\$530,751 million in 2007. This growth was based on an expansion of 10.6% in average productive assets and in a higher net financial margin.

Growth in average interest earning assets was mainly driven by a solid 11.4% real growth in average loans and to a lesser degree, an expansion of 5.4% in the average volume of securities portfolio.

Net Financial Income

(Millions of pesos of december 2007)

	2007	2006	Change
Interest Revenue	1,170,098	835,200	40.1%
Interest Expense	-631,633	-399,790	58.0%
Foreign Exchange transactions, net	18,062	-11,601	-255.7%
Gains from Forwards and Derivative Instruments	-25,776	27,067	-195.2%
Net Financial Income (1)	530,751	450,876	17.7%
Average Interest-Earning Assets	12,199,437	11,028,152	10.6%
Net Financial Margin	4.35%	4.09%	-

(1) Net interest revenue, foreign exchange transactions and gains from forwards derivatives instruments, net.

The expansion of 26 basis points in net financial margin, from 4.09% in 2006 to 4.35% in 2007, is mainly explained by:

- A substantial increase in inflation, measured as the change in the Unidad de Fomento, from 2.0% in 2006 to 7.0% in 2007, which meant that the Bank obtained greater benefits from the portion of assets denominated in Unidades de Fomento financed by liabilities denominated in Chilean pesos.
- A greater contribution by sight deposits as a result of a higher level of nominal interest rates. The average short-term rate increased from 5.02% in 2006 to 5.31% in 2007.

- A more favorable financing structure, reflected in the ratio of interest-bearing liabilities to interest-earning assets, which improved from 73.6% in 2006 to 72.5% in 2007.

These positive effects were partially offset by the reduction in spreads as a result of growing competition in the industry and the greater access of large corporations to non-bank financing.

Fee Income

Consolidated net fee income totaled Ch\$170,743 million in 2007, a real 11.8% increase over the previous year. As result of the new regulation on labor outsourcing put in place during 2007, the Bank has reclassified approximately Ch\$15,440 million from fees paid to operating expenses.

It is important to mention that the corporation's constant efforts to strengthen and broaden its customer base, mainly through higher standards of customer service, the extension of the distribution network and the expansion of the products and services offering, have enabled the Bank to increase its fee-based income, which currently represent close to 25% of the gross margin.

Fees and Income from Services, Net

(Millions of pesos of december 2007)

	2007	2006	Change
Bank	93,110	86,931	7.1%
General Funds Management	34,963	26,814	30.4%
Financial Advisory	1,211	3,054	-60.3%
Insurance Brokerage	11,502	10,359	11.0%
Securities Brokerage	15,919	11,325	40.6%
Factoring	933	813	14.8%
Socofin	10,955	10,614	3.2%
Promarket	126	-	-
Foreign Branches	1,838	2,588	-29.0%
Trade Services Limited	186	272	-31.6%
Total Fees and Income from Services, Net	170,743	152,770	11.8%

In particular, the incentives for promoting joint working between the Bank and all its subsidiaries, providing customers with an integral platform of complementary products and services, have enabled the subsidiaries to increase their contribution to the corporation's total net fees from 41.4% in 2006 to 44.4% in 2007. This change includes outstanding performances by the Securities Brokerage, General Funds Management and Insurance Brokerage subsidiaries which increased their respective fee income by 40.6%, 30.4% and 11.0% in real terms compared to the year before.

The performance by the Stockbroker was mainly based on a larger volume of share trading, plus higher fees from asset management and investment banking services.

The General Funds Management subsidiary produced record net fees of almost Ch\$35,000 million, increasing their contribution to the corporation's total net fees from 17.6% in 2006 to 20.5%. This outstanding performance, reflected also in 22.6% and 18.7% increases in the number of investors and average assets managed respectively, is the result of constant innovations in products and services, and also in the skills and abilities of its staff and management team.

A higher presence in the mass-consumption segments, together with various marketing campaigns, largely explain the increase in fee income of the Insurance Brokerage subsidiary to Ch\$11,502 million in 2007. The marketing campaigns were particularly aimed at housing and car insurance, and financial services.

Regarding the high fee income of the Factoring subsidiary, these are mainly related to the increase in its average loan portfolio by 31% compared to 2006. The subsidiary also recorded a substantial 12% increase in its customer base during the year. This important progress was due to various innovative initiatives including the creation of a new web site incorporating new services and more information for customers.

Fee Income from products and services at the Bank level also expanded well in 2007, reaching Ch\$93,110 million, equivalent to a growth of 7.1% in real terms. As in the rest of the corporation's business units, the larger customer base supported the growth in fees from the Bank's traditional products. In particular, the 11.4% increase in the number of checking accounts enabled net fees related to credit cards and automated teller machines to grow by a real 11.5% when compared to 2006.

Gains from Trading in Financial Investments

The results of sales and mark-to-market adjustments of the Bank's portfolio of financial instruments (net of non-forward derivatives contracts) produced a loss of Ch\$7,633 million in 2007, which compares with a gain of Ch\$7,924 million the year before. This result reflects the impact of the turbulences in the financial markets in the second half of the year, particularly on Latin American investments. In addition, the effect of the increase of 68 basis points in the Chilean sovereign risk led to losses on local instruments held by the foreign branches.

Operating Expenses

Operating expenses totaled Ch\$335,576 million in 2007, a real increase of 3.5% over the previous year. This is mainly accounted for by:

- Reclassification from fees paid to staff remuneration and expenses of approximately Ch\$15,440 million, as a result of the modification of the contract between the Bank and its subsidiary Promarket to comply with the new labor regulation on outsourcing.
- New staff recruitments related to the addition of nine distribution network offices and greater needs of the call center.
- Higher communications and related technology costs in the effort to gain higher levels of productivity and quality of service.
- Higher rental expenses resulting from the expansion of the Bank's branch network.
- Non-recurring expenses related to the merger of Banco de Chile and Citibank Chile, of approximately Ch\$3,600 million.

Despite the increase in recurring expenses and the extraordinary effects on the level of operating expenses in 2007, the outstanding performance at the operating revenues level made a substantial progress in terms of operating efficiency.

The efficiency ratio (operating expenses to operating revenues) reached a record level of 48.5%, a substantial improvement over the 53.8% produced in 2006.

Provision for Loan Losses

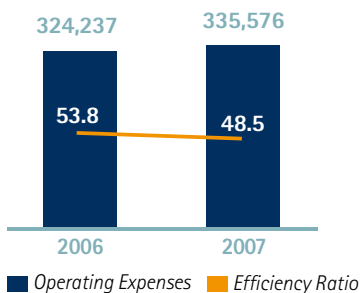
Provision for loan losses in 2007 amounted to Ch\$52,943 million and represented 0.50% of average loans, an increase over the 0.39% for the previous year. Despite the latter, this ratio remained well below that of the financial system as a whole, which was 0.74% in 2006 and 0.98% in 2007.

The increase in the provision for loan losses is mainly a reflection of the expansion in loan volumes and, to a lesser degree, an increase in risk in the mass segments.

Regarding loan losses recoveries, these totaled Ch\$35,124 million in 2007 (Ch\$30,179 million in 2006), representing 0.33% of the average loans in the period, a similar level to the 0.32% reported in 2006.

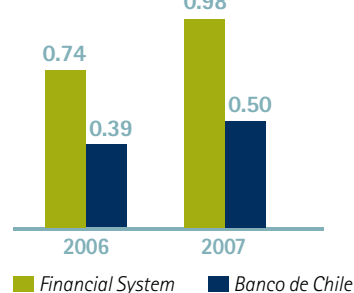
Operating Expenses and Efficiency Ratio

(Millions of pesos of december 2007 / %)



Provision for Loan Losses / Average Loans

(%)



Loss from Price-Level Restatement and Income Tax

Loss from price-level restatement amounted to Ch\$37,948 million in 2007 compared to Ch\$9,157 million the year before. This reflects the significant increase in the inflation rate used for adjustments purposes, from 2.1% in 2006 to 7.4% in 2007. In addition, the higher level of non-monetary liabilities -result of the partial capitalization of the 2006 net income- and the capital increase made mostly during the third quarter of 2007, contributed to a higher loss from price-level restatement in the year.

The Bank's income tax liability amounted to Ch\$26,920 million in 2007, an increase over the Ch\$25,879 million in 2006, representing effective tax rates of 10% and 11% respectively. The annual increase in income taxes was mostly related to a higher income tax base as a result of the 14.3% increase in net income before taxes.

Loan Portfolio

Loans net of interbank lending amounted to Ch\$11,785,508 million at the end of 2007, representing a significant growth of 14.5% over December 2006. This expansion -greater than that of the financial system as a whole- enabled the Bank to increase its market share by 44 basis points, from 18.1% in 2006 to 18.5% in 2007.

Composition of the Loan Portfolio

(Millions of pesos of december 2007)

	2007	2006	Change
Commercial Loans	4,981,777	4,264,756	16.8%
Foreign Trade Loans	868,747	727,416	19.4%
Consumer Loans	1,257,738	1,151,676	9.2%
Mortgage Loans	471,509	624,228	-24.5%
Leasing Contracts	651,726	579,075	12.5%
Contingent Loans	1,268,808	1,060,375	19.7%
Other Outstanding Loans	2,223,875	1,821,933	22.1%
Past Due Loans	61,328	66,250	-7.4%
Total Loans Net of Interbank	11,785,508	10,295,709	14.5%

The large business volume and the strengthening of the Bank's competitive position reflect not only a favorable economic environment but progress in the implementation of various initiatives. These include the progressive implementation of the Neos Plan, a business tool that has permitted the Bank to improve response times to customers and to identify new business opportunities. The Bank also continues to strengthen its distribution network, to innovate in products and services, and to integrate these in all the corporation's business units.

At the market level, retail banking loans increased by 12.3% in real terms during the year, driven by the growing presence of the Bank in segments offering greater margins and growth potential. It should be mentioned however that there was significantly a higher inflation in 2007 than in 2006 which, together with higher interest rates, affected the expansion of the Bank's total portfolio, especially consumer loans.

The customer base of this market increased by 13%, reaching a total of 678,986 debtors as of December 2007. There was a large expansion of mortgage loans financed by the Bank's general borrowings in the context of a strategy focused on strengthening long-term relations with customers. These loans increased by 37% in 2007, comfortably covering the reduction in mortgage loans. An important part of this achievement was based on the development of new products and financing alternatives for customers, together with a better standard of service through the new functions introduced to the Bank's specialized web site.

For their part, business market loans expanded at a faster rate than the Bank's total portfolio, equivalent to 20% in real terms. This larger business volume was based on increased commercial loans, contingent and foreign trade loans, products that showed annual increases of 16.8%, 19.7% and 19.4% respectively

Especially active was the Bank's participation in the financial services, construction, social services and retail sectors where growth in commercial loans and contingent loans was concentrated.

Funding

The Bank's liabilities totaled Ch\$13,569,117 million at the end of 2007, a real increase of 5.9% for the year due to a rise of 6.3% in non-interest bearing liabilities and an expansion of 5.8% in interest bearing liabilities.

Regarding the larger volume of non-interest bearing liabilities, notable was the real growth of 5.0% in checking account balances and a larger volume of contingent liabilities (classified as Other liabilities), the latter consistent with the growth of 19.7% in real terms of contingent loans in the period.

During 2007, the Central Bank of Chile increased by 75 basis points its monetary policy interest rate. This, together with a higher inflation rate in the period, impacted on the alternative cost for customers maintaining sight deposits, motivating a substitution toward savings products, principally time deposits. Nevertheless, the increase in the Bank's customer base, reflected in more than 52,000 new checking accounts, permitted this effect to be offset and the maintenance of a market share of average sight deposits net of clearing of 18.8% at December 2007 (unconsolidated), in excess of its market share in loans.

The real growth in interest bearing liabilities of 5.9% was based mainly on a larger volume of time and savings deposits (driven by higher nominal interest rates), foreign borrowings and ordinary bonds. The 23.2% increase in external sources of funding is directly related to the 19.4% rise in foreign trade loans. In addition, the Bank placed during 2007 ordinary bonds for a total of UF15 million, thus accounting for the 29.8% increase in this source of funding. These issues were made at terms of close to 5 years with spreads of around 60 basis points over the rate for equivalent bonds of the Central Bank of Chile.

The 22.5% reduction of Mortgage Finance Bonds reflects the contraction of note-funded mortgage loans, consistent with the Bank's strategy of fostering mortgage loans through its general borrowings.

Funding

(Millions of pesos of december 2007)

	2007	2006	Change
Non-Interest Bearing Liabilities			
Checking Accounts	1,961,430	1,867,656	5.0 %
Bankers Drafts and Other Deposits	517,533	550,312	(6.0)%
Derivative Instruments	120,163	75,132	59.9 %
Other Liabilities ⁽¹⁾	1,441,103	1,306,764	10.3 %
Total	4,040,229	3,799,864	6.3 %
Interest Bearing Liabilities			
Savings and Time Deposits	6,694,561	6,375,060	5.0 %
Central Bank Borrowings	513	886	(42.1)%
Repurchase Agreements	301,979	329,563	(8.4)%
Mortgage Finance Bonds	397,333	512,982	(22.5)%
Subordinated Bonds	446,395	435,982	2.4 %
Other Bonds	772,801	595,288	29.8 %
Borrowings from Domestic Financial Institutions	73,948	94,792	(22.0)%
Foreign Borrowings	782,868	635,349	23.2 %
Other Obligations	58,490	28,388	106.0 %
Total	9,528,888	9,008,290	5.8 %
Total Liabilities	13,569,117	12,808,154	5.9 %

(1) Includes Contingent Liabilities, Other Liabilities & Minority Interest.

Securities Portfolio

The Bank's securities portfolio at December 2007 totaled Ch\$1,247,481 million, 7.3% below the level at the end of 2006 and wholly comprising of trading instruments.

The following graph shows the composition of the Bank's securities portfolio at December 2007.

Securities Portfolio

(% / at december 2007)



The reduction in the volume of investments and securities for trading, mainly short-term securities of the Central Bank of Chile, reflects the lower technical reserve requirements caused by a change in the regulation put in place since mid 2007 and due to the increase in the Bank's equity base.

Shareholders' Equity

As a result of the Bank's efforts to strengthen its equity base in order to meet future business opportunities, equity rose by 17.3% over 2006 to Ch\$1,051,393 million at the end of 2007, where the higher net income for the year 2007 explains over 20% of this expansion.

In particular, the 18.1% increase in capital and reserves is due to the capitalization of Ch\$34,909 million of the 2006 net income. The Bank also made a capital increase, mainly concentrated on the third quarter of the year, which contributed an additional Ch\$86,415 million. As a result, the Basel Ratio (Total Capital to Risk-Adjusted Assets), reached a level of 10.7% at December 2007 while the Basic Capital to Total Assets Ratio was 5.5%, both above the minimum limits required for the Bank, of 10% and 3% respectively.