BANK OF CHILE
Form 20-F
June 24, 2005
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As filed with the Securities and Exchange Commission on June 24, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

Annual Report Pursuant to Section 13 or

15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2004

Commission File Number 001-15266

BANCO DE CHILE

(Exact name of Registrant as specified in its charter)

BANK OF CHILE

(Translation of Registrant s name into English)

Republic of Chile

(Jurisdiction of incorporation or organization)

Banco de Chile

Ahumada 251

Santiago, Chile

(562) 653-1111

(Address of principal executive offices)

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

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

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the Issuer s classes of capital or common stock as of the close of the period covered by the annual report:

Shares of common stock: 68,079,783,605

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

Yes x No ¨

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

Item 17 ¨ Item 18 x

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THE MERGER

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

PRESENTATION OF FINANCIAL INFORMATION

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

Pursuant to Chilean GAAP, unless otherwise indicated, financial data for all full-year periods through December 31, 2004 included in our audited consolidated financial statements and in the other financial information contained elsewhere in this annual report have been restated in constant Chilean pesos of December 31, 2004.

In this annual report, references to $, U.S.$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch$ are to Chilean and references to UF are to *Unidades de Fomento.* The *Unidad de Fomento*, or UF, is a unit of account which is linked to, and which is adjusted daily to reflect changes in, the Consumer Price Index. As of December 31, 2004, one UF equaled U.S.$30.93 and Ch$17,317.05. See note 1(c) to our audited consolidated financial statements. Percentages and certain dollar and peso amounts contained in this annual report have been rounded for ease of presentation.

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in preparing our audited consolidated financial statements or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Chilean pesos based on the observed exchange rate, as described in Item 3. Key Information Selected Financial Data Exchange Rates, reported by the *Banco Central de Chile*, or the Central Bank, for December 30, 2004 (the latest practicable date, as December 31, 2004 was a banking holiday in Chile). The observed exchange rate on June 21, 2005 was Ch$582.55 = U.S.$1.00. The rate reported by the Central Bank is based on the rate for the prior business day in Chile and is the exchange rate specified by the Chilean Superintendency of Banks for use by Chilean banks in the preparation of their financial statements. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Unless otherwise specified, all references in this annual report to loans are to loans and financial leases before deduction of allowances for loan losses, and all market share data presented in this annual report are based on information published periodically by the Chilean Superintendency of Banks. Non-performing loans include loans as to which either principal or interest is overdue and loans that do not accrue interest. Restructured loans as to which no payments are overdue are not ordinarily classified as non-performing loans. Past due loans include, with respect to any loan, the portion of principal or interest that is 90 or more days overdue; the entire outstanding balance of any loan is included in past due loans only after legal collection

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proceedings have been commenced. This practice differs from that normally followed in the United States, where the amount classified as past due would include the total principal and interest on all loans which have any portion overdue. See Item 4. Information on the Company Selected Statistical Information Classification of Loan Portfolio Based on the Borrower s Payment Performance.

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

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

MACRO-ECONOMIC AND MARKET DATA

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

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Item 3. Key Information

SELECTED FINANCIAL DATA

The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements appearing elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with Chilean GAAP and the rules of the Chilean Superintendency of Banks, which together differ in certain significant respects from U.S. GAAP. Note 28 to our audited consolidated financial statements provides a description of the material differences between Chilean GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of net income for the years ended December 31, 2002, 2003 and 2004 and shareholders equity at December 31, 2003 and 2004.

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

	At or for the year ended December 31,					
	2000	2001	2002	2003	2004	2004
	(in millions of constant Ch$ as of December 31, 2004, except share data)					(in thousands of U.S.$)
CONSOLIDATED INCOME STATEMENT DATA						
Chilean GAAP:						
Interest revenue	Ch$ 604,436	Ch$ 549,738	Ch$ 714,018	Ch$ 439,422	Ch$ 543,372	U.S.$ 970,602
Interest expense	(378,881)	(320,633)	(333,472)	(209,340)	(214,900)	(383,867)
Net interest revenue	225,555	229,105	380,546	230,082	328,472	586,735
Provisions for loan losses	(42,101)	(48,930)	(104,192)	(61,612)	(73,512)	(131,311)
Total fees and income from services, net	41,109	43,007	78,733	98,251	126,842	226,572
Total other operating income (loss), net	12,771	8,894	(31,621)	98,801	14,509	25,916
Total other income and expenses, net	12,344	13,125	(3,456)	14,239	22,434	40,074
Total operating expenses	(147,882)	(147,748)	(256,780)	(227,557)	(240,302)	(429,241)
Loss from price-level restatement	(10,047)	(6,160)	(9,934)	(4,137)	(7,466)	(13,336)
Income before income taxes	91,749	91,293	53,296	148,067	170,977	305,409
Income taxes	(1,647)	1,442	1,194	(14,250)	(18,349)	(32,776)
Net income	90,102	92,735	54,490	133,817	152,628	272,633
Earnings per share(1)	2.01	2.06	0.80	1.97	2.28	
Dividends per share(2)	2.07	2.00	2.07	0.80	2.03	
Weighted average number of shares (in millions)	44,932.70	44,932.70	68,079.78	68,079.78	66,932.68	
U.S. GAAP(3):						
Interest revenue	333,028	729,044	736,605	463,551	571,365	1,020,603
Interest expense	(215,821)	(425,130)	(355,149)	(209,251)	(218,067)	(389,524)

Net interest revenue	117,207	303,914	381,456	254,300	353,298	631,079
Provisions for loan losses	(37,368)	(55,242)	(110,348)	(28,094)	(31,519)	(56,301)
Net income	(97)	51,517	17,552	133,658	146,912	262,422
Earnings per share(1)	(0.0)	1.15	0.26	1.96	2.19	
Weighted average number of total shares(4)	23,147	57,587	68,080	68,080	66,933	

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	At or for the year ended December 31,					
	2000	2001	2002	2003	2004	2004
	(in millions of constant Ch$ as of December 31, 2004, except share data)					(in thousands of U.S.$)
CONSOLIDATED BALANCE SHEET DATA						
Chilean GAAP:						
Cash and due from banks	Ch$ 528,531	Ch$ 562,955	Ch$ 700,267	Ch$ 878,255	Ch$ 890,616	U.S.$ 1,590,869
Financial investments	1,478,121	1,759,103	1,655,261	1,964,232	1,607,273	2,871,001
Loans, net of allowances	3,984,728	3,973,488	6,155,049	6,227,855	6,735,169	12,030,740
Other assets	196,810	193,432	384,305	410,808	416,145	743,342
Total assets	6,188,190	6,488,978	8,894,882	9,481,150	9,649,203	17,235,952
Deposits	3,765,757	3,936,881	5,319,389	5,446,709	5,785,727	10,334,793
Other interest bearing liabilities	1,601,147	1,699,910	2,364,851	2,635,120	2,362,160	4,219,422
Other liabilities	400,805	427,509	570,620	686,253	826,783	1,476,848
Total liabilities	5,767,709	6,064,300	8,254,860	8,768,082	8,974,670	16,031,063
Shareholders equity	Ch$ 420,481	Ch$ 424,678	Ch$ 640,022	Ch$ 713,068	Ch$ 674,533	U.S.$ 1,204,889
U.S. GAAP(3):						
Financial investments	225,928	1,733,770	1,484,672	1,671,794	1,486,140	2,654,627
Loans, net	2,280,774	5,915,863	5,808,387	5,880,857	6,291,266	11,237,815
Total assets	2,987,107	9,222,042	8,900,762	9,437,600	9,623,775	17,190,531
Total liabilities	2,561,125	8,015,312	7,575,683	8,063,434	8,299,500	14,825,032
Total shareholders equity	425,982	1,206,730	1,325,079	1,374,166	1,324,275	2,365,499

	At or for the year ended December 31,				
	2000	2001	2002	2003	2004
CONSOLIDATED RATIOS					
Chilean GAAP:					
Profitability and Performance					
Net interest margin(5)	4.27%	3.87%	4.52%	2.75%	3.84%
Return on average total assets(6)	1.57	1.44	0.59	1.45	1.59
Return on average shareholders equity(7)	23.68	23.21	8.69	20.01	23.56
Capital					
Average shareholders equity as a percentage of total assets	6.62	6.21	6.75	7.22	6.75
Bank regulatory capital as a percentage of minimum regulatory capital	203.86	197.67	218.35	202.71	179.13
Equity as a percentage of total assets	6.50	6.21	6.75	7.22	6.75
Ratio of liabilities to regulatory capital(8)	17.46	18.27	14.10	15.14	17.20
Credit Quality					
Substandard loans as a percentage of total loans(9)	5.75	6.28	6.69	5.16	6.51
Past due loans as a percentage of total loans	1.36	1.23	2.35	1.69	1.23
Allowances for loan losses as a percentage of substandard loans(9)	52.52	54.60	52.44	55.56	38.41
Allowances for loan losses as a percentage of past due loans	222.46	278.72	149.07	170.09	181.55
Allowances for loan losses as a percentage of total loans	3.02	3.43	3.51	2.87	2.23
Past due amounts as a percentage of shareholders equity	16.89	15.26	25.63	18.67	16.23

Consolidated risk index(10)	2.01	2.42	3.00	2.36	2.23
Operating Ratios					
Operating expenses/operating revenue	52.92	52.58	60.04	53.28	51.15
Operating expenses/average total assets	2.57	2.30	2.76	2.46	2.50
U.S. GAAP:					
Profitability and Performance					
Net interest margin(11)	2.22	5.12	4.53	3.03	4.13%
Return on average total assets(12)	00%	0.80%	0.19%	1.44%	1.53%

(1) Earnings per share data have been calculated by dividing net income by the weighted average number of common shares outstanding during the year.

(2) Dividends per share data are calculated by dividing the amount of the dividend paid by the weighted average of shares outstanding during the year.

(3) All U.S. GAAP numbers use Article 9 presentation. All U.S. GAAP figures have been calculated taking into account the U.S. GAAP adjustments set forth in note 28 to our audited consolidated financial statements.

(4) Common shares outstanding are presented giving effect to the number of shares of the merged bank outstanding during the year. The aggregate number is calculated based on an exchange ratio of 3.135826 shares of Banco de Chile for each outstanding share of Banco de A. Edwards. Banco de A. Edwards had 7,381.41 million shares outstanding immediately prior to the merger. For the year ended December 31, 2000, the number of shares represents Banco de A. Edwards outstanding shares presented in terms of Banco de Chile shares using the exchange ratio discussed above. For the year ended December 31, 2001, Banco de Chile s and Banco de A. Edwards shares have been combined as of March 27, 2001. For 2004, the weighted average of shares outstanding includes the effect of the repurchase of our shares during 2004.

(5) Net interest revenue divided by average interest earning assets.

(6) Net income (loss) divided by average total assets.

(7) Net income (loss) divided by average shareholders equity.

(8) Total liabilities divided by bank regulatory capital.

(9) See Item 4. Information on the Company Selected Statistical Information Analysis of Substandard Loans and Amounts Past Due.

(10) The guidelines used to calculate our consolidated risk index were amended in 2004. As a result, our consolidated risk index as of December 31, 2004 is not comparable to the consolidated risk index presented for preceding periods. See note 1 to our audited consolidated financial statements.

(11) Net interest revenue under U.S. GAAP divided by average interest earning assets.

(12) Net income under U.S. GAAP divided by average total assets.

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Exchange Rates

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

Purchases and sales of foreign exchange which may be effected outside the Formal Exchange Market can be carried out in the *Mercado Cambiario Informal*, or the Informal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the observed exchange rate. On December 30, 2004 (the latest practicable date, as December 31, 2004 was a banking holiday in Chile), the average exchange rate in the Informal Exchange Market was Ch$556.75 per U.S.$1.00, or 0.55% lower than the published observed exchange rate of Ch$559.83 per U.S.$1.00.

The following table sets forth the annual low, high, average and period-end observed exchange rate for U.S. dollars for each year beginning in 2000, as reported by the Central Bank:

	Daily Observed Exchange Rate Ch$ per U.S.$(1)			
Year	**Low(2)**	**High(2)**	**Average(3)**	**Period End(4)**
2000	Ch$ 501.04	Ch$ 580.37	Ch$ 539.49	Ch$ 572.68
2001	557.13	716.62	634.94	656.20
2002	641.75	756.56	688.94	712.38
2003	593.10	758.21	691.40	599.42
2004	559.21	649.45	609.55	559.83
December	559.66	597.27	576.17	559.83
2005				
January	557.40	586.18	574.12	586.18
February	563.22	585.40	573.58	577.52
March	573.55	591.69	586.48	586.45
April	572.75	588.95	580.46	582.87
May	570.83	583.59	578.31	580.20
June(5)	580.62	592.75	587.94	582.55

Source: Central Bank.

(1) Nominal amounts.

(2) Exchange rates are the actual low and high, on a day-by-day basis for each period.

(3) The average of monthly average rates during the year.

(4) As reported by the Central Bank the first business day of the following period.

(5) Period from June 1, 2005 through June 21, 2005.

The observed exchange rate on June 21, 2005 was Ch$582.55 = U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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RISK FACTORS

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

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

Risks Relating to our Operations and the Banking Industry

We are involved in ongoing regulatory proceedings that could result in monetary fines.

Beginning in September 2004, the Office of the Comptroller of the Currency, or OCC, and the Board of Governors of the Federal Reserve System by and through the Federal Reserve Bank of Atlanta, collectively, the Federal Reserve, conducted examinations of our New York and Miami branches, respectively, to evaluate, among other things, our compliance with the U.S. Bank Secrecy Act and other U.S. anti-money laundering requirements. As a result of these examinations, on February 1, 2005, we agreed to the issuance of a consent order with the OCC and a cease and desist order with the Federal Reserve. Pursuant to these orders, we have instituted an action plan which includes the maintenance of programs geared towards strengthening our compliance with the Bank Secrecy Act and United States anti-money laundering laws. Based on the press statement issued by the OCC at the time the consent order was entered into, civil money penalties and other sanction are possible, but the likelihood, extent and amount of such actions cannot be determined at this time. We cannot assure you that these examinations will not have an adverse effect on our financial condition and results of operations. See Item 8. Financial Information Legal Proceedings.

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

From December 31, 1999 to December 31, 2004, our aggregate loan portfolio, net of interbank loans (on an unconsolidated basis) grew by 115.4% in nominal terms and 82.4% in real terms to Ch$6,659,839 million. During the same period, our consumer loan portfolio grew by 303.0% in nominal terms and 241.3% in real terms to Ch$691,851 million, each calculated in accordance with the loan classification system of the Chilean Superintendency of Banks. On a combined basis (combining Banco de Chile and Banco de A. Edwards), from December 31, 1999 to December 31, 2004, the aggregate loan portfolio of both banks, net of interbank loans (on an unconsolidated basis) grew by 32.0% in nominal terms and 12.4% in real terms to Ch$6,659,839 million. During the same period, on a combined basis, the consumer loan portfolio of both banks grew by 136.9% in nominal terms and 100.6% in real terms to Ch$691,851 million, each calculated in accordance with the loan classification system of the Chilean Superintendency of Banks. Further expansion of our loan portfolio (particularly in the lower-middle to middle income consumer and small- to medium-sized corporate business areas) may expose us to a higher level of loan losses and require us to establish higher levels of allowances for loan losses.

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

We cannot assure you that in the future our loan portfolio will continue to grow at historical rates. According to the Chilean Superintendency of Banks, from December 31, 1999 to December 31, 2004, the aggregate amount of loans outstanding in the Chilean banking system (on an unconsolidated basis) grew by 49.9% in nominal terms and 26.9% in real terms to Ch$37,349,296 million. A reversal of this rate of growth of the Chilean economy could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses. See Item 4. Information on the Company Regulation and Supervision and Item 4. Information on the Company Selected Statistical Information.

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

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

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

We reported a negative cash flow from operating activities for the year ended December 31, 2003, which could have an adverse effect on our ability to operate in the future.

During 2003, we reported a negative cash flow from our operations. During that year, we invested a large amount of cash in Central Bank securities in order to meet our technical reserve requirements as a result of higher current account and other demand deposits levels, resulting in negative operating cash flow. From time to time, we may need to invest large amounts of cash in order to meet regulatory requirements. Given current low interest rates, our customers tend to maintain deposits in checking accounts and in other demand deposits, which are included in the technical reserve requirement, which may also result in a need to invest more cash in highly liquid products such as Central Bank securities. Either or both of these needs may affect our cash flow from operations. We cannot assure you that we will not report a negative cash flow from operating activities in the future.

Increased competition and industry consolidation may adversely affect our operations.

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

We also face competition from non-bank competitors with respect to some of our credit products, such as credit cards and consumer loans. Non-bank competition from large department stores has become increasingly significant in the consumer lending sector. In addition, we face competition from competitors such as leasing, factoring and automobile finance companies, with respect to credit products, and mutual funds, pension funds and insurance companies, with respect to savings products and mortgage loans. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business has experienced rapid growth. See Item 4. Information on the Company Business Overview Competition.

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

Our exposure to small businesses and lower-middle income individuals could lead to higher levels of past due loans and subsequent charge-offs.

Although we historically emphasized banking for large and medium-sized businesses, an increasing number of our corporate customers (approximately 9.4% of the value of the total loan portfolio at December 31, 2004) consist of small companies (those with annual sales of less than Ch$300 million) and, to a lesser extent, individual customers (approximately 2.8% of the value of the total loan portfolio at December 31, 2004) in the lower income individuals subsegment (annual income between Ch$1.8 million and Ch$5.4 million). Our strategy includes increasing lending and providing other services to attract additional lower-middle income individuals and small companies as customers. These customers are likely to be more severely affected by adverse developments in the Chilean economy than large corporations and high-income individuals. Consequently, in the future we may experience higher levels of past due loans, which could result in higher allowances for loan losses. The levels of past due loans and subsequent write-offs may be materially higher in the future. See Item 4. Information on the Company Business Overview Principal Business Activities.

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

As of December 31, 2004, Sociedad Administradora de la Obligacion Subordinada SAOS S.A., or SAOS, our affiliate, holds 42.0% of our shares as a consequence of our 1996 reorganization. The reorganization was partially due to our 1989 repurchase from the Central Bank of certain non-performing loans that we had previously sold to the Central Bank and later exchanged for subordinated debt without a fixed term. Under the terms of a repayment obligation in favor of the Central Bank that SAOS assumed to replace the Central Bank subordinated debt, SAOS may be required to sell some of our shares to the public. See Item 4. Information on the Company History and Development of the Bank History The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile S.A., a holding company that controls us and SAOS, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. Dividends received from us are the sole source of SAOS s revenue, which it must apply to repay this indebtedness. However, under SAOS s agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that

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SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire accumulated deficit amount. As of May 2, 2005, SAOS maintained a deficit balance with the Central Bank of Ch$27,905 million, equivalent to 5.4% of our capital and reserves. As of the same date, Ch$104,155 million would have represented 20.0% of our capital and reserves. If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth, and to distribute stock dividends among our shareholders, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. The shareholders of SM-Chile will have a right of first refusal with respect to that sale.

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

Our results of operations are affected by interest rate volatility.

Our results of operations depend to a great extent on our net interest revenue, which represented 69.9% of our operating revenue in 2004. Changes in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, leading to a reduction in our net interest revenue. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors. Any volatility in interest rates could have a material adverse effect on our financial condition or results of operations. The average annual short-term interest rate (based on the rate paid by Chilean financial institutions) for 90 to 360 day deposits was 1.94% in 2002, 1.76% in 2003 and 1.07% in 2004. The average long-term interest rate based on the Chilean Central Bank s eight-year duration bonds was 4.54% in 2002, 3.96% in 2003 and 3.52% in 2004. See Item 5. Operating and Financial Review and Prospects Overview Inflation and Item 5. Operating and Financial Review and Prospects Overview Interest Rates.

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

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

Risks Relating to our ADSs

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

As of December 31, 2004, LQ Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco S.A., beneficially owned approximately 51.57% of our outstanding voting rights. These principal shareholders are in a position to elect a majority of the members of our board of directors, direct our management and control substantially all matters that are to be decided by a vote of the shareholders, including fundamental corporate transactions.

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Actions by our principal shareholders with respect to the disposition of the shares or ADSs they beneficially own, or the perception that such actions may occur, may adversely affect the trading price of our shares on the various stock exchanges on which they are listed and, consequently, the market price of the ADSs.

There may be a lack of liquidity and a limited market for our shares and ADSs.

We merged with Banco de A. Edwards, a Chilean Bank, effective as of January 1, 2002. Prior to the merger, there was no public market for our shares outside Chile or for our ADSs. While our ADSs have been listed on the New York Stock Exchange, or NYSE, since the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will be sustained. During 2004, a daily average of 6,237 American Depositary Receipts, or ADRs, were traded on the NYSE. Although our shares are traded on the Santiago Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange, the market for our shares in Chile is small and illiquid. At December 31, 2004, approximately 12.0% of our outstanding shares are held by shareholders other than our principal shareholders, including SM-Chile and SAOS.

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

You may be unable to exercise preemptive rights.

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

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

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

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

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

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

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

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

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

Risks Relating to Chile

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

The Chilean government s economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could affect the dollar value of our common stock and our ADSs. The peso has been subject to large devaluations in the past and could be subject to significant fluctuations in the future. In the period from December 31, 1998 to December 31, 2004, the value of the U.S. dollar relative to the Chilean peso increased approximately 0.24%, as compared to an 8.2% decrease in value in the period from December 31, 1994 to December 31, 1998.

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

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Inflation could adversely affect the value of our ADSs and financial condition and results of operations.

Although Chilean inflation has moderated in recent years, Chile has experienced high levels of inflation in the past. High levels of inflation in Chile could adversely affect the Chilean economy and, indirectly, the value of our ADSs. The annual rate of inflation (as measured by changes in the Consumer Price Index and as reported by the *Instituto Nacional de Estadisticas*, or the Chilean National Institute of Statistics) during the last five years ended December 31, 2004 and the first five months of 2005 was:

Year	**Inflation (Consumer Price Index)**
2000	4.5%
2001	2.6
2002	2.8
2003	1.1
2004	2.4
2005 (through May 31)	1.4%

Source: Chilean National Institute of Statistics

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

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

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

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

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

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

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

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

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

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

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FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. These statements appear throughout this annual report, including, without limitation, under Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects. Examples of such forward-looking statements include:

- projections of operating revenues, net income (loss), net income (loss) per share, capital expenditures, dividends, capital structure or other financial items or ratios;
- statements of our plans, objectives or goals, including those related to anticipated trends, competition and regulation;
- statements about our future economic performance or that of Chile or other countries in which we operate; and
- statements of assumptions underlying such statements.

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

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

- changes in general economic, business, political or other conditions in Chile or changes in general economic or business conditions in Latin America;
- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies;
- increased costs;
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms; and
- the factors discussed under Item 3. Key Information Risk Factors.

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

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Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE BANK

Overview

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

Our legal name is Banco de Chile, and we are organized as a banking corporation under the laws of the Republic of Chile and are licensed by the Chilean Superintendency of Banks to operate as a commercial bank. Our principal executive offices are located at Ahumada 251, Santiago, Chile. Our telephone number is +56 (2) 653-1111 and our website is www.bancochile.cl. Our registered agent in the United States is Banco de Chile, New York Branch. Its office is located at 535 Madison Avenue, 9th Floor, New York, New York 10022; its telephone number is +1 (212) 758-0909.

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

- large corporations;
- middle market companies;
- international banking;
- retail banking;
- treasury and money market operations; and
- operations through subsidiaries.

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

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

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As of December 31, 2004, we had:

- total assets of Ch$9,649,203 million (U.S.$17,236 million);
- loans outstanding of Ch$6,888,911 million (U.S.$12,305 million);
- deposits of Ch$5,785,727 million (U.S.$10,335 million); and
- shareholders equity including net income of Ch$674,533 million (U.S.$1,205 million).

According to information published by the Chilean Superintendency of Banks, as of December 31, 2004, we were the second largest private bank in Chile in terms of total loans (excluding interbank loans) with a market share of 17.8%.

We are headquartered in Santiago, Chile and, as of December 31, 2004, had 9,365 employees and delivered financial products and services through a nationwide network of 224 branches and 1,001 ATMs that form part of a network of 3,181 ATMs operated by Redbanc S.A., a company owned by us and 13 other private sector financial institutions.

History

We were established in 1893 as a result of the merger of Banco Nacional de Chile, Banco Agricola and Banco de Valparaiso, which created the largest privately held bank in Chile. We believe that we remained the largest private bank in Chile until mid-2002. Beginning in the early 1970s, the Chilean government assumed control of a majority of Chilean banks and all but one of the foreign banks operating at the time closed their branches and offices in Chile. Throughout this era, we remained privately owned, with the Chilean government owning participating shares which it sold to private investors in 1975. We developed a well-recognized name in Chile and expanded our operations in foreign markets where we developed an extensive network of correspondent banks. In the early twentieth century, we established a representative office in London, which we maintained until 1985, when our European operations were moved to Frankfurt. The Frankfurt office was closed in 2000, when our foreign operations were centralized at the New York branch. In 1987 and 1988, we established four subsidiaries to provide the full range of financial products and services permitted by the General Banking Law and in 1999, we established our insurance brokerage and factoring subsidiaries.

Merger with Banco de A. Edwards

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

We concluded the merger process at the end of 2002 with the consolidation of a new corporate structure and the integration of our technological platforms. In 2001 and 2002, we incurred merger related costs of approximately Ch$15,103 million and Ch$31,973 million, respectively. No further costs related to the merger have been incurred since 2002.

Neos Project

In 2003, we developed the groundwork for Neos, our technological innovation platform project which was established to improve the quality of our service and increase efficiency. During 2004, we concluded the initial phases of Neos, which consisted of implementing a new management control platform which will support internal administration, a customer relationship management system which will initially manage client service requirements and global client information and a new accounting system. From 2005 to 2007, we will launch more sophisticated customer relationship management systems and a core banking system that will manage our main assets and liabilities.

The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt

During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability requiring that the Central Bank and the Chilean government provide assistance to most Chilean private sector banks, including us. During this period, we experienced significant financial difficulties. In 1985 and 1986, we increased our capital and sold shares representing 88% of our capital to more than 30,000 new shareholders. As a result, no single shareholder held a controlling stake in our company. In 1987, the Chilean Superintendency of Banks returned the control and administration of the bank to our shareholders.

Subsequent to the crisis, like most major Chilean banks, we sold certain of our non-performing loans to the Central Bank at face value on terms that included a repurchase obligation. The repurchase obligation was later exchanged for subordinated debt of each participating bank issued in favor of the Central Bank. In 1989, pursuant to Law No. 18,818, banks were permitted to repurchase the portfolio of non-performing loans for a price equal to the economic value of such loans, provided that the bank assume a subordinated obligation equal to the difference between the face value and economic value of such loans. In November 1989, we repurchased our portfolio of non-performing loans from the Central Bank and assumed the Central Bank s subordinated debt relating to our non-performing loans.

The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch$1,049,198 million, or U.S.$1,750 million, required that a certain percentage of our income before provisions for the subordinated debt be applied to repay this obligation. The Central Bank subordinated debt did not have a fixed maturity, and payments were made only to the extent that we earned income before provisions for the subordinated debt. In 1993 we applied 72.9% of our income before provisions for the Central Bank subordinated debt to the repayment of this debt. In 1994 we applied 67.6% and in 1995 we applied 65.8% of our income before provisions for the Central Bank subordinated debt to the repayment of this debt.

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

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

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile, a holding company that beneficially owns us and SAOS, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. Dividends received from us are the sole source of SAOS s revenue, which it must apply to repay this indebtedness. However, under SAOS s agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on

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this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire accumulated deficit amount. As of May 2, 2005, SAOS maintained a deficit balance with the Central Bank of Ch$27,905 million, equivalent to 5.4% of our capital and reserves. As of the same date, Ch$104,155 million would have represented 20.0% of our capital and reserves. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Banking Industry An affiliate of ours may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends.

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

Capital Expenditures

The following table reflects our capital expenditures in each of the three years ended December 31, 2002, 2003 and 2004:

	For the Year Ended December 31,		
	2002	**2003**	**2004**
	(in millions of constant Ch$ as of December 31, 2004)		
Computer equipment	Ch$ 7,844	Ch$ 3,503	Ch$ 6,849
Furniture, machinery and installations	3,585	2,560	4,635
Real estate	662	608	397
Vehicles	329	304	429
Subtotal	12,420	6,975	12,310
Software	3,352	4,518	7,544
Total	Ch$ 15,772	Ch$ 11,493	Ch$ 19,854

Our budget for capital expenditures in 2005 is Ch$42,594 million, substantially all of which will be used in Chile. Capital expenditures planned for 2005 consist mainly of expenditures for information technology, including the implementation of Neos, a technological innovation platform project that we believe will improve our customer service and increase efficiency, and capital expenditures related to disbursements necessary to maintain and improve our existing branch office infrastructure and other maintenance required in the ordinary course of our business.

BUSINESS OVERVIEW

Business Strategy

Our long-term strategy is to maintain our position as a leading bank in Chile, providing a broad range of financial products and services to large corporations, small and mid-sized companies and individuals nationwide. As part of this strategy, we operate under a multi-brand approach in order to target the different market segments, taking advantage of our well positioned brand names: Banco de Chile, Banco de A. Edwards, Banchile, Banco Credichile and Leasing Andino. Our strategy is focused on:

- delivering superior customer service that responds to the specific needs of our customers in each market segment;

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expanding our customer base in Chile by enlarging our distribution network and strengthening our electronic channels;

enhancing profitability by increasing revenues from fee-based services through the development of new services and active cross-selling of such services to our customers;

continuing to focus on cost-control measures and otherwise enhancing productivity to improve our existing efficiency standards; and

further developing the international products and services that we offer to our customers.

The key components of our strategy are described below.

Deliver Superior Customer Service and Expand our Customer Base

Our banking strategy is focused on developing long-term relationships with our customers and expanding our customer base by emphasizing customer service and providing a broad range of financial products and services. In order to provide our customers with improved customer service and value-added services, we are developing a new customer relationship management system and providing additional sales and service training to our business account executives. We will also support our enlarged customer base by expanding our branch and ATM networks to locations where we have little or no presence.

We expect that our corporate and individual customers will require more comprehensive credit and non-credit financial services than in the past and our customer service strategy includes the following:

To expand our high- and middle-income individual customer base, we intend to (1) market a broad range of products and services to high- and middle-income individuals, (2) cross-sell products and services such as mutual funds, lease financing, factoring, insurance and securities brokerage services, (3) develop new services targeted to the specific needs of these customers, (4) develop programs to increase quality of service, (5) develop public relations programs to gain customer loyalty and (6) develop commercial agreements and strategic alliances.

To increase our lower to middle-income individual customer base, we intend to (1) develop new products and services at competitive prices, (2) strengthen our distribution channels, (3) overhaul the branches that service these clients and (4) reposition our retail banking image by using the Banco Credichile brand name.

In the middle market companies business area, we intend to increase our lending activities and offerings of fee-based services, such as electronic banking, import-export financial services, financial advisory services and cash management services.

In the large corporations business area, we are focused on increasing offerings of specialized lending products, treasury and cash management services.

Expand Fee-Based Services

In recent years, our margins from traditional lending activities have declined significantly and, as a result, we have increasingly shifted our focus to developing other sources of revenue such as fee-based products and services. Our consolidated income from fees and other services has continued to grow over the last three years and was Ch$126,842 million in 2004, an increase of 29.1% from Ch$98,251 million in 2003. We seek to continue to grow fee revenue by developing new services and by cross-selling these services to our base of existing customers. In our corporate business, we intend to actively market fee-based services such as electronic banking, receivables collection, payroll services, supplier payments, investment advisory services and cash management. In our retail banking business area, we seek to increase revenues from fee-based services such as telephone and electronic banking, ATMs, general checking services, credit cards, mutual funds, securities brokerage and insurance brokerage.

Maintain Focus on Operating Efficiencies

In 2004, our consolidated operating expenses represented approximately 51.15% of our operating revenue. As the Chilean banking sector continues to grow, we believe that a low-cost structure will become increasingly important to compete profitably.

We have invested heavily in technology, including software, during recent years (approximately Ch$11,196 million in 2002, Ch$8,021 million in 2003 and Ch$14,393 million in 2004) and plan to continue to focus on technology in the future to achieve further improvements in customer service and operating efficiency. In 2003, we began the first stage of Neos, and in 2003 and 2004, capital expenditures associated with Neos amounted to Ch$2,943 and Ch$5,070 million, respectively. We estimate that our Neos related capital expenditures will amount to Ch$9,437 million in 2005.

Provide Competitive International Products and Services

We intend to provide to our primarily Chilean customer base a complete array of international products at competitive prices. Our primary focus in this respect will be on trade financing of customer related operations, one of our traditional areas of international activity. In order to strengthen our relationships with Chilean businesses engaged in international trade, we intend to take advantage of our New York and Miami branches, in addition to our trade services subsidiary in Hong Kong.

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

Ownership Structure

The following diagram shows ownership structure at December 31, 2004:

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Share Repurchase Program

On March 20, 2003, at an extraordinary shareholders meeting, our shareholders approved the establishment of a share repurchase program to be conducted on the various Chilean stock exchanges on which our shares are listed and/or through a tender offer conducted in accordance with the Chilean Corporations Law. The program began on April 26, 2004 and will last for 24 months.

The Central Bank authorized the program on June 2, 2003, subject to the following conditions: (i) we must request prior approval of the offering price from the Central Bank when we decide to resell any shares acquired under the program, and (ii) the shares may only be purchased using retained net income from prior years. The Chilean Superintendency of Banks authorized the program on July 2, 2003.

Under the terms of the share repurchase program:

- We may repurchase up to 1% of our issued shares directly in the Chilean stock exchanges during a 12-month period, without being required to conduct a tender offer;
- The maximum percentage of shares that we may repurchase cannot exceed 3% of our paid-in capital;
- The minimum price that we may pay for the shares is the weighted average of the closing prices of the shares as quoted by the Santiago Stock Exchange for the 45 business days preceding the repurchase, and the maximum price is 15% higher than that average;
- If the shares that we repurchase are not resold within 24 months of acquisition, paid-in capital must be reduced by the amount of shares we repurchased that were not resold;
- Shareholders have a preferential right to acquire the repurchased shares if we decide to resell them, unless our board of directors approves the sale of up to 1% of our shares during a 12-month period on any stock exchange on which our shares are listed; and
- Repurchased shares, although registered in our name, do not have voting or dividend rights.

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

On March 24, 2005, our board of directors resolved to resell 1,701,994,590, or 100%, of the shares we acquired through the program. On May 5, 2005, the Central Bank set a sale price of UF0.002031, the equivalent of Ch$35.10, per share. Of the shares to be resold, 968,822,755, or 1.42% of shares outstanding, were offered to our shareholders for a 30-day preemptive rights period which ended June 22, 2005. 1,114,857 shares were sold during this period. The remaining 733,171,835 shares, or 1.08% of shares outstanding, are being offered in a tender offer to SM-Chile s series A, B and D shareholders which began on June 23, 2005 and will close on July 22, 2005. Shares which are not resold to our shareholders or SM-Chile s series A, B or D shareholders in the preemptive offering or tender offer, as applicable, will be sold in a public offering at a date and price to be determined by our board of directors. This date may not be set after January 22, 2006, otherwise, a new rights offering must be conducted. The new offering may not extend beyond April 26, 2006 and the price may not be set below UF 0.001839 per share, the minimum price set by the Central Bank.

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Principal Business Activities

We are a full-service financial institution providing, directly and indirectly through our subsidiaries and affiliates, a wide variety of credit and non-credit products and services to all segments of the Chilean financial market. The following diagram illustrates, in summary form, our principal business areas, which operate through us or, in the case of Operations through subsidiaries, through our subsidiaries:

The following table provides information on the composition of our loan portfolio and our consolidated net income before tax for the year ended December 31, 2004, allocated among our principal business areas:

	Loans		Consolidated net income before tax (1)
	(in millions of constant Ch$ as of December 31, 2004, except for percentages)		
Large corporations	Ch$ 2,684,305	39.0%	Ch$ 38,794
Middle market companies	1,690,732	24.5	36,537
International banking	294,091	4.3	6,756
Retail banking	2,071,016	30.0	49,008
Treasury and money market operations	12,507	0.2	25,091
Operations through subsidiaries	136,260	2.0	28,181
Other (adjustments and eliminations)			(13,390)
Total	Ch$ 6,888,911	100.0%	Ch$ 170,977

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

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

	For the Year Ended December 31,		
	2002	2003	2004
	(in millions of constant Ch$ as of December 31, 2004)		
Large corporations	Ch$ 93,867	Ch$ 90,493	Ch$ 79,712
Middle market companies	113,797	108,647	112,267
International banking	2,680	16,786	12,217
Retail banking	147,639	140,725	166,877
Treasury and money market operations	26,024	23,337	29,081
Operations through subsidiaries	42,832	54,223	65,693
Other (adjustments and eliminations)	819	(7,077)	3,976
Total	Ch$ 427,658	Ch$ 427,134	Ch$ 469,823

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

	For the Year Ended December 31,		
	2002	2003	2004
	(in millions of constant Ch$ as of December 31, 2004)		
Chile	Ch$ 426,509	Ch$ 412,104	Ch$ 458,796
Banking operations	383,677	357,881	393,103
Operations through subsidiaries	42,832	54,223	65,693
Foreign branch operations	1,149	15,030	11,027
New York	(1,510)	12,130	8,673
Miami	2,659	2,900	2,354
Total	Ch$ 427,658	Ch$ 427,134	Ch$ 469,823

Large Corporations

In general, our large corporations business area services domestic companies with annual sales in excess of Ch$12,000 million, multinational corporations, financial institutions, governmental entities and companies affiliated with Chile s largest conglomerates (regardless of size). This business area offers these companies a broad range of products and services tailored to their specific needs. These services include deposit-taking and lending in both pesos and foreign currency, trade and project financing and various non-credit services, such as collection, supplier payments and payroll management. In addition, our large corporations business area offers a broad range of banking products and services including working capital financing, lines of credit, commercial loans, leasing, corporate financial services, foreign trade financing, letters of credit in domestic and foreign currencies, mortgage loans, payment and asset management services, checking accounts and time deposits, and, through our subsidiaries, brokerage, mutual funds and investment fund management services. All of our branches (except the Credichile branches) provide services to our large corporations business area customers directly and indirectly.

Our large corporate customers are engaged in a wide spectrum of industry sectors. As of December 31, 2004, this business area had primarily made loans to customers engaged in:

- financial services (approximately 34.7% of all loans made by this business area);
- construction (approximately 15.6% of loans made by this business area);
- manufacturing (approximately 15.0% of all loans made by this business area);
- trade (approximately 12.4% of all loans made by this business area); and
- agriculture (approximately 7.6% of all loans made by this business area).

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At December 31, 2004, we had approximately 1,918 large corporate debtors. Loans to large corporations totaled approximately Ch$2,684,305 million at December 31, 2004, representing 39.0% of our total loans at that date. Our large corporations business area accounted for Ch$38,794 million of our consolidated net income before tax for the year ended December 31, 2004.

The following table sets forth the composition of our portfolio of loans to large corporations as of December 31, 2004

	As of December 31, 2004 (in millions of constant Ch$ as of December 31, 2004, except for percentages)	
Commercial loans	Ch$ 1,734,212	64.6%
Foreign trade loans	349,155	13.0
Contingent loans	310,470	11.6
Leasing contracts	147,509	5.5
Mortgage loans	42,006	1.6
Consumer loans	326	
Other loans	100,627	3.7
Total	Ch$ 2,684,305	100.0%

Our large corporations business area s loan portfolio consists principally of unsecured loans with maturities between one and six months and of medium- and long-term loans to finance fixed assets, investment projects and infrastructure projects. In addition, our large corporations business area issues contingent credit obligations in the form of letters of credit, bank guarantees and similar obligations in support of the operations of our large corporate customers. See Selected Statistical Information.

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

We are party to approximately 3,430 payment service contracts and approximately 1,020 collection service contracts with large corporate customers. Under these payment contracts, we provide large corporate customers with a system to manage their accounts and make payments to suppliers, pension funds and employees, thereby reducing administrative costs. We believe that cash management and payment service contracts provide a source of low-cost deposits and the opportunity to cross-market our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our large corporate customers, providing centralized collection services for their accounts receivables and other similar payments.

Middle Market Companies

We serve the financing needs of small and medium-size companies through our middle market companies business area. We generally define middle market companies as those with annual sales of between Ch$300 million and Ch$12,000 million and small or emerging companies as those with annual sales of between Ch$45 million and Ch$300 million. As of December 31, 2004, our middle market companies business area had approximately 68,346 checking account holders, of which approximately 74% are small or emerging companies. In terms of loans amounts, however, approximately 61.6% of the middle market companies business area s total loan portfolio represents loans to medium-size companies.

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Our middle market companies business area offers its customers a broad range of financial products, including project financing, working capital financing, mortgage loans and debt rescheduling, as well as other alternatives such as leasing operations, factoring, mutual funds, insurance and securities brokerage services and collection services (through our Banchile subsidiaries). We also offer our clients full advisory services aimed at facilitating foreign trade, as well as comprehensive financing and service alternatives.

We have developed a set of services designed to facilitate and optimize the operational and financial management of small and medium size companies. These services include payment services (such as employee compensation, taxes and employee benefits), payments to suppliers and automated bill payments. We provide most of these services through remote service channels, such as the internet and, as of December 31, 2004, delivered such services to approximately 27,452 customers. We also provide account receipts and instrument collection services through electronic means. All of these products and services are available through our nationwide branch network.

Through our subsidiaries, our middle market companies business area offers our customers a full range of financial advisory, stock brokerage, mutual fund management and general and life insurance brokerage services.

The following table sets forth the composition of our portfolio of loans to middle market companies as of December 31, 2004:

	As of December 31, 2004 (in millions of constant Ch$ as of December 31, 2004, except for percentages)	
Commercial loans	Ch$ 900,628	53.3%
Mortgage loans	242,837	14.4
Leasing contracts	191,487	11.3
Foreign trade loans	134,052	7.9
Contingent loans	129,468	7.7
Consumer loans	31,822	1.9
Other loans	60,438	3.5
Total	Ch$ 1,690,732	100.0%

Our middle market companies business area s loan portfolio consists primarily of short- and long-term commercial loans and mortgage loans. At December 31, 2004, this business area had primarily made loans to customers engaged in:

trade (23.5% of loans made by this business area);

financial services (18.9% of loans made by this business area);

agriculture (17.9% of loans made by this business area);

manufacturing (15.0% of loans made by this business area);

transport and storage (6.8% of loans made by this business area); and

construction (6.1% of loans made by this business area).

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At December 31, 2004, we had Ch$1,690,732 million of outstanding loans to small and medium-size companies, representing 24.5% of our total loan portfolio at that date. Small and medium-size banking clients accounted for approximately Ch$36,537 million of our consolidated net income before tax for the year ended December 31, 2004.

Commercial Loans. Our middle market companies business area s commercial loans, which mainly consist of project financing and working capital loans, are denominated in pesos, UF or U.S. dollars. Commercial loans may have fixed or variable rates of interest and generally mature between one and three months from the date of the loan. At December 31, 2004, our middle market companies business area had outstanding commercial loans of Ch$900,628 million, representing 53.3% of the middle market companies business area s total loans and 13.1% of our total loans at that date.

Mortgage Loans. Our middle market companies business area s commercial mortgage loans are denominated in UF and generally have maturities of between five and 30 years. At December 31, 2004, this business area had granted mortgage loans outstanding of approximately Ch$242,837 million, representing 14.4% of the middle market companies business area s total loans and 3.5% of our total loans at such date.

International Banking

Through our international banking business area, we offer a range of international services, principally import and export financing, letters of credit, guarantees and other forms of credit support, as well as currency swaps, banking services and treasury services for our corporate clients in Chile and abroad.

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

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

As of December 31, 2004, we had Ch$599,051 million in foreign trade loans, representing 8.7% of our total loans as of that date, and Ch$143,182 million in letters of credit and other contingent obligations related to foreign trade operations, representing 2.1% of our total loans as of that date.

Our international banking business area also manages our international network. This network is made up of branches in New York and Miami, our trade services subsidiary in Hong Kong, three representative offices (located in Mexico City, Sao Paulo and Buenos Aires) and approximately 600 correspondent banks. We have established credit relations with approximately 200 correspondent banks and account relationships with approximately 45 correspondent banks.

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We use our international network in order to:

- obtain all our foreign currency funding for either trade or general purposes (short- or medium-term) for our Santiago, Chile head office and our foreign branches;
- supply additional savings alternatives to our predominantly Chilean customers;
- provide banking services to our corporate customers who operate outside of Chile;
- provide treasury and cash management services and lending alternatives to our corporate customers on an international basis;
- diversify our loan and investment portfolio by identifying, mainly through our representative offices, opportunities in dealing with selected customers in pre-approved countries; and
- obtain commercial information on foreign companies that do business in Chile and business opportunities for our Chilean customers seeking to expand to new markets abroad.

The following table sets forth, as of December 31, 2004, the composition of our portfolio of loans originated through our New York and Miami branches:

	As of December 31, 2004	
	New York Branch	Miami Branch
	(in millions of constant Ch$ as of December 31, 2004)	
Foreign trade loans	Ch$ 37,862	Ch$ 51,316
Commercial loans	67,311	18,844
Interbank loans	1,541	1,153
Contingent loans	4,089	6,512
Total	Ch$ 110,803	Ch$ 77,825

The following table sets forth, as of December 31, 2004, the sources of funding for our New York and Miami branches:

	As of December 31, 2004	
	New York Branch	Miami Branch

	(in millions of constant Ch$ as of December 31, 2004, except for percentages)			
Current accounts	Ch$ 145,696	32.0%	Ch$ 25,021	14.6%
Certificates of deposits and time deposits	198,530	43.6	131,399	76.9
Other demand deposits	68,057	14.9	7,787	4.6
Contingent liabilities	4,089	0.9	6,512	3.8
Foreign borrowings	35,627	7.8	10	0.0
Other liabilities	3,612	0.8	164	0.1
Total	Ch$ 455,611	100.0%	Ch$ 170,893	100.0%

New York Branch. Our wholly owned New York branch was established in 1982 and provides a range of general banking services, including deposit-taking, mainly to non-residents of the United States. At December 31, 2004, the New York branch had total assets of Ch$477,930 million, including a loan portfolio of Ch$110,803 million, representing 1.6% of our total loan portfolio. Of the New York branch s loans, Ch$67,311 million were commercial loans, mostly to large corporations in Chile and in other Latin American countries. The remaining Ch$43,492 million were principally foreign trade loans, amounting to Ch$37,862 million, and contingent loans (letters of credit and stand-by letters of credit), amounting to Ch$4,089 million. In 2004, our New York branch recognized net income of Ch$3,303 million.

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Investments in bonds and foreign securities were Ch$255,896 million at December 31, 2004, most of which consisted of private sector bonds. As of December 31, 2004, the New York branch did not have past due loans. The New York branch s allowances for loan losses totaled Ch$758 million, which represented 0.7% of the branch s loan portfolio at December 31, 2004. In addition, our New York branch had Ch$193 million in country risk allowances. Although the New York branch manages its assets and liabilities locally, it follows the same credit processes as are followed in Santiago, Chile and all credit decisions are made by our account officers in Santiago, Chile. See Item 8. Financial Information Legal Proceedings for a description of certain proceedings involving the New York branch.

Funding sources for the New York branch include current account, money market accounts and deposits for less than 30 days of Ch$305,343 million, time deposits of Ch$106,939 million and foreign borrowings of Ch$35,627 million.

As of December 31, 2004, the New York branch had capital of Ch$22,319 million (including net income of Ch$3,303 million for the year).

Miami Branch. Our wholly owned Miami branch was opened in 1995 as an agency and in 2004 expanded its banking operations from that of an agency to a branch. It provides a range of traditional commercial banking services, mainly to non-residents of the United States, including deposit-taking, providing credit to finance foreign trade and making loans to individuals or Chilean companies involved in foreign trade. Additionally, our Miami branch provides correspondent banking services to financial institutions, including working capital loans, letters of credit and bankers acceptances. At December 31, 2004, our Miami branch had total assets of Ch$176,516 million, a loan portfolio of Ch$77,825 million representing 1.1% of our total loan portfolio, and an investment portfolio of Ch$61,241 million. Our Miami branch s loan portfolio at December 31, 2004 consisted primarily of Ch$51,316 million of foreign trade loans and Ch$18,844 million of commercial loans primarily to Latin American companies, including Chilean companies. The branch s funding sources include demand deposits, money market accounts and deposits for less than 30 days (Ch$94,128 million), time deposits (Ch$70,080 million) and contingent liabilities (Ch$6,512 million). In 2004, our Miami branch recognized net income of Ch$491 million.

At December 31, 2004, the Miami branch did not have past due loans. Allowances for loan losses amounted to Ch$582 million, not including the Ch$278 million in country risk allowances. Although the Miami branch manages its assets and liabilities locally, it follows the same credit processes as are followed in Santiago, Chile, and all credit decisions are made by our account officers in Santiago, Chile. See Item 8. Financial Information Legal Proceedings for a description of certain proceedings involving the Miami branch.

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

Retail Banking

Our retail banking business area serves the needs of retail customers from high- to lower-middle income individuals, with service being segmented according to the client s income. At December 31, 2004, loans made by this business area represented 30.0% of our total loan portfolio. Approximately Ch$49,008 million of our net income before tax for the year ended December 31, 2004 was accounted for by our retail banking business area.

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The following table sets forth the composition of our retail banking business area s loan portfolio as of December 31, 2004:

	As of December 31, 2004 (in millions of constant Ch$ as of December 31, 2004, except for percentages)	
Mortgage loans	Ch$ 535,039	25.8%
Consumer loans	659,703	31.9
Commercial loans	146,293	7.1
Leasing contracts	4,853	0.2
Contingent loans	1,482	0.1
Foreign trade loans	82	0.0
Other loans(1)	723,564	34.9
Total	Ch$ 2,071,016	100.0%

(1) Other loans include primarily mortgage loans financed by our general borrowings and lines of credit.

High- and Middle-Income Individuals. We define high- and middle-income individuals as those with annual income in excess of Ch$5.4 million (in 2004, per capita annual income in Chile was approximately Ch$2.6 million).

Our high- and middle-income individuals subsegment offers our customers a broad range of retail banking products, including residential mortgage loans, lines of credit and other consumer loans, credit cards, checking accounts, savings accounts and time deposits. We also offer mutual funds and brokerage services to individuals as described under Operations through Subsidiaries below. At December 31, 2004, we had outstanding extensions of credit to approximately 269,758 high- and middle-income individuals, including approximately 35,087 residential loans, 237,630 lines of credit, 118,365 other consumer loans and 251,195 credit card accounts. At the same date, this area maintained 321,714 checking accounts, 145,712 savings accounts and 65,026 time deposits.

We provide service to high- and middle-income individual customers through a network of 171 branches including four specialized private banking centers, 20 specialized transaction centers and our ATM network. Since 1994, we have offered a nationwide phone-banking service that permits our high- and middle-income individual customers to receive balances and other account-related information, transfer funds between accounts and effect a wide variety of credit transactions. In 1997, we launched a full 24-hour banking service under the brand *TodaHora* and our homepage on the internet to better serve our high- and middle-income individual customers.

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

At December 31, 2004, we had Ch$347,165 million in installment loans, which accounted for 52.6% of the retail banking business area s consumer loans. A majority of installment loans are denominated in pesos and are payable monthly.

Mortgage Loans. At December 31, 2004, there were outstanding mortgage loans of Ch$484,683 million to high- and middle-income individuals, which represented 23.4% of the retail banking business area s total loans and 7.0% of our total loan portfolio. A feature of our mortgage loans to individuals is that mortgaged property typically secures all of a mortgagor s credit with us, including credit card and other loans.

Our residential mortgage loans generally have maturities between five and 30 years and are generally denominated in UF. To reduce our exposure to interest rate fluctuations and inflation with respect to our residential loan portfolio, a majority of these residential loans are currently funded through the issuance of mortgage finance bonds, which are recourse obligations with payment terms that are matched to the residential loans and which bear a real market interest rate plus a fixed spread over the rate of change in the UF. Chilean banking regulations limit the amount of a residential mortgage loan that may be financed with a mortgage finance bond to the lesser of 75% of the purchase price of the property securing the loan or the appraised value of such property. In addition, we generally require that the monthly payments on a residential mortgage loan not exceed 25% of the borrower s household after-tax monthly income.

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

At December 31, 2004, we were Chile s second largest private sector bank in terms of amount of mortgage loans and, based on information prepared by the Chilean Superintendency of Banks; we accounted for approximately 14.8% of the residential mortgage loans in the Chilean banking system and approximately 20.1% of such loans made by private sector banks.

Credit Cards. We issue both Visa and MasterCard credit cards, and our product portfolio includes both personal and corporate cards. In addition to traditional cards, our credit card portfolio also includes co-branded cards (Travel Club and Global Pass), and 41 affinity card groups (of which 30 are associated with our co-branded programs).

As of December 31, 2004, we had 273,256 valid credit card accounts, with 411,260 credit cards in the high-middle income individuals subsegment. Total charges on our credit cards during 2004 amounted to Ch$405,795 million, with Ch$351,117 million corresponding to purchases and service payments in Chile and abroad and Ch$54,678 million corresponding to cash advances (both within Chile and abroad). These charge volumes represent a 28.0% market share in terms of volume of use of bank credit cards issued in Chile.

As of December 31, 2004, our credit card loans in the high- and middle-income individuals subsegment amounted to Ch$71,873 million and represented 10.9% of our retail banking business area s consumer loans.

Two Chilean companies that are affiliated with us, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2004, Transbank had 18 shareholders and Nexus had seven shareholders, all of which are banks. As of December 31, 2004, our equity ownership in Transbank was 17.4% and our equity interest in Nexus was 25.8%.

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

Debit Cards. We have different types of debit cards. Depending on their specifications, these cards can be used for banking transactions on the ATMs that operate on the local network, Redbanc, the Visa International PLUS network, the local network of merchants participating in the local Redcompra debit program or the international network of merchants associated with the Electron program. We have given these debit cards different names *(Chilecard Normal, Chilecard Plus, Chilecard Electron, Chilecard Empresas, Banjoven, Cheque Electronico, Multiedwards, Cuenta Directa and Cuenta Familiar)* based on their specific functions and the relevant brand and target market to which they are oriented. As of December 31, 2004, we had a 30.4% market share of debit card transactions, with more than 12 million transactions performed in 2004.

Lines of Credit. We had 237,630 approved lines of credit to customers in our high- and middle-income individuals subsegment as of December 31, 2004 and outstanding advances to 173,139 individuals totaling Ch$112,593 million, or 5.4% of the retail banking business area total loans.

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

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

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

At December 31, 2004, the retail banking business area administered 324,537 checking accounts for approximately 316,200 customers with an aggregate balance of Ch$397,315 million. At such date, our checking account balances totaled approximately Ch$1,424,569 million and represented 15.9% of our total liabilities.

Lower Income Individuals - Banco Credichile (Credichile). We offer products and services to the lower-middle to middle income portions of the Chilean population through Credichile, which we established specifically to serve the needs of customers in this market subsegment. Credichile represents a distinct delivery channel for our products and services in this market subsegment, maintaining a separate brand and network of 52 Credichile branches and nine other credit centers. Credichile offers our customers a range of products, including consumer loans, credit cards, auto loans and residential mortgage loans and a special demand deposit account (see *Bancuenta* below) targeted at low-income customers. At December 31, 2004, Credichile had approximately 151,923 customers and total loans outstanding of Ch$189,907 million, representing 2.8% of our total loan portfolio at that date.

Improved economic conditions in Chile over the last decade and the growth of the Chilean middle class has resulted in increased demand for consumer credit by lower-middle income individuals, whom we classify as persons with annual income between Ch$1.8 million and Ch$5.4 million. Many of these individuals have not had prior exposure to banking products or services. Credichile focuses on developing and marketing innovative segment-oriented products to satisfy the needs of individuals in this subsegment while introducing them to the banking system and complements the services offered in our other business areas, especially our large corporations business area, by offering services to employers such as direct deposit capabilities that engender the use of our services by employees.

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

Consumer Lending. Credichile provides short- to medium-term consumer loans and credit card services. As of December 31, 2003, Credichile had approximately 131,767 consumer loans that totaled Ch$123,951 million outstanding at December 31, 2004. As of the same date, Credichile customers had 40,070 valid credit card accounts, with loans of Ch$7,448 million and total charges of Ch$7,400 million.

Bancuenta. Credichile introduced Bancuenta as a basic deposit product that provides consumers flexibility and ease of use, and which allows us to tap a section of the consumer market that previously was not part of the banking system. The Bancuenta account is a non-interest bearing demand deposit account without checking privileges targeted at customers who want a secure and comfortable means of managing and accessing their money. The customer may use the ATM card linked to the Bancuenta account (which may include a revolving line of credit) to make deposits or automatic payments to other Credichile accounts through a network of 3,181 ATMs available through the Redbanc system.

At December 31, 2004, Credichile had approximately 454,028 Bancuenta accounts. Bancuenta account holders pay an annual fee, a fee each time the account holder draws on the Bancuenta line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a Bancuenta account are withdrawn automatically on a monthly basis from funds available in the account. Bancuenta allows us to offer our large corporate customers the ability to pay their employees by direct deposit of funds into the individual employee s account at Credichile. We believe this product can lead to stronger long-term relationships with our large and middle market corporate customers and with the employees of such customers.

Treasury and Money Market Operations

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

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

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

Our investment portfolio as of December 31, 2004 amounted to Ch$1,607,273 million, of which 69.1% corresponded to securities issued by the Central Bank and the Chilean Government, 10.4% corresponded to securities from foreign issuers, 13.4% corresponded to securities issued by local financial institutions and 7.1% corresponded to securities issued by Chilean corporate issuers. Our investment strategy is designed with a view to supplementing our expected profitability, risks and economic variable projections. Our investment strategy is kept within regulatory limits as well as internal limits defined by our finance and international committee.

Operations through Subsidiaries

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

The following table sets forth information with respect to our financial services subsidiaries at December 31, 2004:

	As of or for the year ended December 31, 2004		
	Assets	**Shareholders Equity**	**Net Income (loss)**
	(in millions of constant Ch$ as of December 31, 2004)		
Banchile Corredores de Bolsa S.A.	Ch$ 307,270	Ch$ 34,956	Ch$ 9,803
Banchile Administradora General de Fondos S.A.	15,424	13,992	9,081
Banchile Factoring S.A.	123,818	9,305	2,109
Banchile Asesoria Financiera S.A.	2,275	1,888	1,756
Banchile Corredores de Seguros Ltda	2,389	1,959	671
Banchile Securitizadora S.A.	8,746	620	59
Promarket S.A.	681	331	46
Socofin S.A.	4,100	931	137
Banchile Trade Services Limited	Ch$ 7	Ch$ (1)	Ch$ (7)
Total	Ch$ 464,710	Ch$ 63,981	Ch$ 23,655

The following table sets out our ownership interest in our financial services subsidiaries at December 31, 2004:

	Ownership

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

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

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Securities Brokerage Services. We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores is registered with the Chilean Superintendency of Securities and Insurance, the regulator of Chilean open stock corporations, as a securities broker and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores has provided stock brokerage services, fixed income investments and foreign exchange products to individuals and businesses through our branch network. During the year ended December 31, 2004, Banchile Corredores had an aggregate trading volume on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange of approximately Ch$4,816,245 million. At December 31, 2004, Banchile Corredores had equity of Ch$34,956 million, and for the year ended December 31, 2004, had net income of Ch$9,803 million, which represented 6.4% of our consolidated net income for such period.

Mutual and Investment Fund Management. Since 1980, we have provided mutual fund management services through Banchile Administradora General de Fondos S.A. (formerly Banchile Administradora de Fondos Mutuos S.A.). As of December 31, 2004, according to data prepared by the Chilean Superintendency of Securities and Insurance, Banchile Administradora General de Fondos was the largest mutual fund manager in Chile, managing approximately 26.7% of all Chilean mutual funds assets. At December 31, 2004, Banchile Administradora General de Fondos operated 40 mutual funds and managed Ch$1,766,116 million in net assets on behalf of 152,656 corporate and individual participants.

The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos at December 31, 2004:

Name of Fund	Type of Fund	Net Asset Value As of December 31, 2004 (in millions of constant Ch$)	
Utilidades	Fixed income (short/medium term)	Ch$	197,602
Liquidez 2000	Fixed income (short term)		160,264
Deposito XXI	Fixed income (medium/long term)		270,136
Corporativo	Fixed income (short term)		250,799
Estrategico	Fixed income (medium/long term)		210,472
Corporate Dollar Fund	Fixed income (short term)		105,589
Horizonte	Fixed income (medium/long term)		95,921
Patrimonial	Fixed income (short term)		55,538
Performance	Fixed income (short/medium term)		37,266
Banchile Acciones	Equity		60,283
Ahorro	Fixed income (medium/long term)		72,404
Alianza	Debt/Equity (medium/long term)		40,649
Disponible	Fixed income (short term)		16,852
Crecimiento	Fixed income (short term)		29,117
Inversion	Fixed income (medium/long term)		33,351
Operacional	Fixed income (short term)		29,090
Capitalisa Accionario	Equity		8,467
Renta Futura	Fixed income (short/medium term)		6,838
Euro Money Market Fund	Fixed income (short term)		7,390
Emerging Fund	Debt/Equity		4,162
Latin America Fund	Debt/Equity		6,952
Cobertura	Fixed income (medium/long term)		3,176
Dollar Fund	Fixed income (medium/long term)		2,114
U.S. Fund	Debt/Equity		2,024
Global Fund	Debt/Equity		1,204
U.S. High Technology Fund	Debt/Equity		841

Asia Fund	Debt/Equity		3,332
Europe Fund	Debt/Equity		998
Technology Fund	Debt/Equity		788
U.S. Stability Fund	Debt/Equity		586
International Bond	Fixed income (medium/long term)		370
Euro Technology Fund	Debt/Equity		458
Medical & Health-Care Fund	Debt/Equity		390
U.S. Bond Fund	Fixed income (medium/long term)		178
Telecommunication Fund	Debt/Equity		376
Emerging Dollar	Debt/Equity		2,872
Global Dollar	Debt/Equity		1,965
US Dollar Fund	Debt/Equity		817
Bonsai 106 Garantizado	Fixed income (medium/long term)		21,457
Garantizado Plus	Fixed income (medium/long term)		23,025
Total		Ch$	1,766,113

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At December 31, 2004, Banchile Administradora General de Fondos had equity of Ch$13,992 million and for the year ended December 31, 2004, had net income of Ch$9,081 million, which represented 5.9% of our consolidated net income for such period.

Factoring Services. We provide factoring services to our customers through Banchile Factoring S.A. Through this service, we purchase our customers outstanding debt portfolios, such as bills, notes, promissory notes or contracts, advancing them the cash flows involved and performing the collection of the related instruments. As of December 31, 2004, Banchile Factoring had net income of Ch$2,109 million, with a 22.7% return on shareholders equity and an estimated 17.4% market share in Chile s factoring industry.

Financial Advisory Services. We provide financial advisory and other investment banking services to our customers through Banchile Asesoria Financiera S.A. The services offered by Banchile Asesoria Financiera are directed primarily to our corporate customers and include advisory services regarding mergers and acquisitions, restructuring, project financing and strategic alliances. As of December 31, 2004, Banchile Asesoria Financiera had shareholders equity of Ch$1,888 million, and for the year ended December 31, 2004, had net income of Ch$1,756 million.

Insurance Brokerage. We provide insurance brokerage services to our customers through Banchile Corredores de Seguros Limitada. At the beginning of 2000 we began to offer life insurance policies associated with consumer loans and non-credit related insurance to our individual clients and the general public. As of December 31, 2004, Banchile Corredores de Seguros had shareholders equity of Ch$1,959 million, and for the year ended December 31, 2004, had net income of Ch$671 million. Banchile Corredores de Seguros had a 3.1% market share by amount of policies sold by insurance brokerage companies during 2003, the latest year for which information is available for insurance brokerage companies.

Securitization Services. We offer investment products to meet the demands of institutional investors such as private pension funds and insurance companies through Banchile Securitizadora S.A. This subsidiary securitizes financial assets, which involves the issuance of a debt instrument, with a credit rating, that can be traded in the Chilean marketplace, backed by a bundle of revenue-producing assets of the client company. As of December 31, 2004, Banchile Securitizadora had shareholders equity of Ch$620 million, and for the year ended December 31, 2004, had net income of Ch$59 million. Banchile Securitizadora had a 15.14% market share by volume of assets securitized as of December 31, 2004.

Sales Services. Promarket S.A. manages the direct sales force that sells and promotes our products and services (such as checking accounts, consumer loans and credit cards), together with those of our subsidiaries, and researches information about potential customers. As of December 31, 2004, Promarket S.A. had shareholders equity of Ch$331 million, and for the year ended December 31, 2004, had net income of Ch$46 million.

Collection Services. We provide judicial and extra-judicial collection services of loans on our behalf or on behalf of third parties through Socofin S.A. As of December 31, 2004, Socofin S.A. had equity of Ch$931 million, and for the year ended December 31, 2004, had a net income of Ch$137 million.

Trade Services. In November 2004, we began offering direct trade services to our customers through Banchile Trade Services Limited, which acts as our trade finance entity in markets such as China, Hong Kong, Taiwan and South Korea. As of December 31, 2004, Banchile Trade Services Limited had equity of Ch$(1) million and a net loss of Ch$(7) million.

Distribution Channels and Electronic Banking

Our distribution network provides integrated financial services and products to our customers through a wide range of channels. This network includes ATMs, branches, on-line banking and phone-banking devices. Our 1,001 ATMs (that form part of Redbanc s 3,181 ATM system) allow our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2004, we had a network of 224 retail branches throughout Chile. The branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, disburse cash, offer the full range of our retail banking products such as consumer loans, automobile financing, credit cards and checking accounts, lend to small- and medium-size companies and provide information to current and potential customers.

We offer electronic banking services to our customers 24 hours a day through our internet website, www.bancochile.cl, which has homepages that are segmented by market. Our retail homepage offers a broad range of services, including the payment of bills, electronic fund transfers, stop payment and non-charge orders, as well as a wide variety of account inquiries. Our middle market companies homepage offers services including our office banking service, *Banconexion Web*, which enables our middle market companies customers to perform all of their banking transactions from their offices. Both homepages offer our customers the sale of third-party products with exclusive benefits. We also have a homepage designed for our investor customers, through which they can perform transactions such as stock trading, time deposit taking and opening savings accounts. Our foreign trade customers can rely on our international business homepage, which enables them to inquire about the status of their foreign trade transactions and perform transactions such as opening letters of credit, recording import collection and hedging on instructions and letters of credit. In 2004, approximately 171,084 individual customers and 29,968 corporate customers performed close to 13.1 million transactions monthly on our website, of which 1.6 million are monetary transactions.

In addition, we provide our customers with access to a 24-hour phone-banking call center that grants them access to account information and allows them to effect fund transfers and certain payments. This service, through which we receive approximately 980,000 calls per month, has enabled us to develop customer loyalty campaigns, sell financial services and products, answer specialized inquiries about our remote services and receive and resolve complaints by customers and non-customers.

In 2001, in association with Banco de Credito e Inversiones, we created a company called Comercio Electronico Artikos Chile S.A. with the purpose of providing Chilean companies with the opportunity to trade their products and services on an electronic basis through the internet. We supplement this service with a wide range of financial services and electronic payment means. Artikos Chile uses the Commerce One platform, a world leader in business-to-business technological solutions.

Competition

Overview

The Chilean market for banking and other financial services is highly competitive, and we face significant competition in each of our principal areas of operation. The Chilean financial services market consists of a number of distinct sectors. The most important sector, commercial banking, includes 26 privately owned banks and one public sector bank, Banco del Estado. The privately owned banks have traditionally been divided between those that are principally Chilean-owned, of which there are 14, and those that are principally foreign-owned, of which there are

12. At December 31, 2004, three banks, Banco Santander-Chile (22.7%), our bank (17.8%) and the public sector bank, Banco del Estado (13.2%) together accounted for 53.7% of all outstanding loans by Chilean financial institutions, net of interbank loans. Chilean-owned banks together accounted for 61.0% of total loans outstanding while foreign-owned banks accounted for 39.0% of total loans outstanding.

As a commercial bank offering a range of services to all types of businesses and individual customers, we face a variety of competitors, ranging from other large, privately owned commercial banks to more specialized entities like niche banks. The principal commercial banks in Chile include Banco Santander-Chile, Banco de Credito e Inversiones and BBVA Banco BHIF, which we consider to be our primary competitors. Nevertheless, we face competition to a lesser extent from Banco del Estado, which has a larger distribution network and larger customer base than we do. Banco del Estado, which operates under the same regulatory regime as Chilean private sector banks, was the third largest bank in Chile at December 31, 2004, with outstanding loans, net of interbank loans, of Ch$4,937,389 million, representing a 13.2% market share, according to data published by the Chilean Superintendency of Banks.

In the large corporations business area, we consider our strongest competitors to be Banco Santander-Chile, Banco de Credito e Inversiones and BBVA Banco BHIF. We also consider these banks to be our most significant competitors in the middle market companies business area.

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

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

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

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

Non-bank competition from large department stores has become increasingly significant in the consumer lending sector. Indeed, three new consumer-oriented banks, affiliated with Chile s largest department stores have been established during recent years. Although these new banks had a market share of less than 1.1% as of December 31, 2004, according to the Chilean Superintendency of Banks, the opening of these banks is likely to bring increased competition into the consumer banking business.

In addition, two new banks were incorporated during 2004, and some local investor groups have announced their intention to incorporate new banks in 2005. We expect that the addition of these new banks will lead to greater competition, particularly in banking services directed to middle-income individuals.

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The following table provides certain statistical information on the Chilean financial system as of December 31, 2004:

	As of December 31, 2004							
	Assets		Loans(1)		Deposits		Shareholders Equity(2)	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
	(in millions of constant Ch$ as of December 31, 2004, except percentages)							
Domestic private sector banks	Ch$ 23,920,951	43.9%	Ch$ 17,842,889	47.8%	Ch$ 14,527,724	45.6%	Ch$ 2,015,873	43.5%
Foreign-owned banks	22,041,760	40.5	14,569,016	39.0	12,573,928	39.4	2,207,874	47.6
Private sector total	Ch$ 45,962,711	84.4	Ch$ 32,411,905	86.8	Ch$ 27,101,652	85.0	Ch$ 4,223,747	91.1
Banco del Estado	8,522,488	15.6	4,937,389	13.2	4,781,267	15.0	412,493	8.9
Total banking system	Ch$ 54,485,199	100.0%	Ch$ 37,349,294	100.0%	Ch$ 31,882,919	100.0%	Ch$ 4,636,240	100.0%

Source: Chilean Superintendency of Banks

(1) Net of interbank loans.

(2) Shareholders equity includes net income for purposes of this table.

Loans

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

	Bank Loans(1)				
	As of December 31,				
	2000	2001	2002	2003	2004
Banco Santander-Chile	11.5%	11.7%	24.7%	22.6%	22.7%
Banco de Chile	12.7	12.1	18.7	18.5	17.8
Banco de Credito e Inversiones	7.9	9.0	10.4	11.2	11.8
BBVA Banco BHIF	5.8	6.0	6.7	7.3	7.8
Banco Santiago(2)	15.8	16.1			
Banco de A. Edwards(3)	8.3	7.4			

Total market share for six banks	62.0%	62.3%	60.5%	59.6%	60.1%

Source: Chilean Superintendency of Banks

(1) For ease of comparison, interbank loans have been eliminated.

(2) Banco Santiago merged with Banco Santander-Chile in August 2002.

(3) Banco de A. Edwards merged with us on January 1, 2002.

Risk Index

Our unconsolidated risk index primarily increased in 2002 and 2003 (relative to prior years) as a result of our merger with Banco de A. Edwards.

As of October 31, 2004, our unconsolidated risk index of 2.39% was higher than the risk index of the financial system as a whole (*i.e.*, all banks) of 2.01% (the latest available information for 2004 for the Chilean financial system). For a discussion of risk index, see Selected Statistical Information Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines Allowance for Loan Losses under the Previous Guidelines Global Allowances for Loan Losses. The following graph illustrates the five-year history of our unconsolidated loan portfolio risk index compared to the risk index of total loans in the Chilean financial system as of October 31 for each of the years indicated.

Source: Chilean Superintendency of Banks

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

	Unconsolidated Risk Index As of October 31,				
	2000	**2001**	**2002**	**2003**	**2004(3)**
Banco Santiago(1)	1.34%	1.26%			
Banco de A. Edwards(2)	2.90	3.23			
Banco de Credito e Inversiones	1.95	1.63	1.34%	1.30%	1.88%
BBVA Banco BHIF	2.18	1.81	1.68	1.42	1.57
Banco Santander Chile	1.42	1.38	1.61	1.85	1.88
Banco de Chile	2.01	2.03	2.98	2.40	2.39
Financial system	2.08%	1.90%	1.95%	1.82%	2.01%

Source: Chilean Superintendency of Banks

(1) Banco Santiago merged with Banco Santander-Chile in August 2002.

(2) Banco de A. Edwards merged with us on January 1, 2002.

(3) The guidelines used by Chilean banks to calculate their consolidated and unconsolidated risk index were amended in 2004. Consequently, our unconsolidated risk index information (and that of the Chilean financial system) for 2004 is not comparable to the unconsolidated risk

indices presented for preceding periods. See note 1 to our audited consolidated financial statements.

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Credit Quality

At December 31, 2004, according to information published by the Chilean Superintendency of Banks, we had an unconsolidated ratio of past due loans to total loans of 1.27%. The following table sets forth the ratio of past due loans to total loans for the four largest private sector banks at December 31 in each of the last three years:

	Past Due Loans to Total Loans		
	As of December 31,		
	2002	2003	2004
Banco de Credito e Inversiones	1.09%	1.11%	0.94%
Banco de Chile	2.43	1.74	1.27
BBVA Banco BHIF	1.97	1.91	1.64
Banco Santander Chile	2.15	2.24	1.52
Total for four banks	2.03%	1.83%	1.35%

Source: Chilean Superintendency of Banks

Deposits

We had deposits of Ch$5,267,066 million at December 31, 2004 on an unconsolidated basis. In unconsolidated terms, our 16.5% of the market share for deposits, including borrowings from domestic financial institutions, placed us in second place among private sector banks. The following table sets forth the market shares in terms of deposits for the four private sector banks with the largest market share as of December 31 in each of the last three years:

	Deposits		
	As of December 31,		
	2002	2003	2004
BBVA Banco BHIF	6.9%	7.7%	8.3%
Banco de Credito e Inversiones	10.3	10.8	11.3
Banco de Chile	16.7	17.3	16.5
Banco Santander Chile	22.1	19.9	20.8
Total market share for four banks	56.0%	55.7%	56.9%

Source: Chilean Superintendency of Banks

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Shareholders Equity

With Ch$521,905 million in shareholders equity (not including net income), according to information published by the Chilean Superintendency of Banks, at December 31, 2004, we were the second largest private sector commercial bank in Chile in terms of shareholders equity.

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

	Shareholders Equity		
	As of December 31,		
	2002	2003	2004
	(in millions of constant Ch$ as of December 31, 2004)		
BBVA Banco BHIF	Ch$ 245,113	Ch$ 243,407	Ch$ 252,256
Banco de Credito e Inversiones	263,641	295,050	337,190
Banco de Chile	585,532	579,251	521,905
Banco Santander Chile	Ch$ 834,298	Ch$ 830,677	Ch$ 832,959

Source: Chilean Superintendency of Banks

Return on Average Shareholders Equity

Our return on average shareholders equity (including net income for the year) for the year ended December 31, 2004 was 23.9%, according to information published by the Chilean Superintendency of Banks. The following table sets forth our return on average shareholders equity and the returns of our principal competitors and the Chilean financial system, in each case as of December 31 in each of the last five years:

	Return on Average Shareholders Equity Year Ended December 31,				
	2000	2001	2002	2003	2004
Banco de A. Edwards (1)	1.5%	4.3%			
Banco Santiago(2)	19.8	24.0			
BBVA Banco BHIF	7.4	6.3	8.8%	10.5%	5.3%
Banco de Chile	23.4	23.6	8.8	20.2	23.9
Banco de Credito e Inversiones	19.0	21.8	20.4	22.1	22.8
Banco Santander-Chile	22.1	22.1	16.6	21.6	20.4
Total average financial system	12.5%	15.7%	13.5%	14.9%	15.3%

Source: Chilean Superintendency of Banks

(1) Banco de A. Edwards merged with us on January 1, 2002.

(2) Banco Santiago merged with Banco Santander-Chile in August 2002.

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Efficiency

For the year ended December 31, 2004, our operating expenses as a percentage of our operating revenues, or efficiency ratio, was 51.2%.

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

	Efficiency Ratio(1)		
	As of December 31,		
	2002	2003	2004
Banco Santander-Chile	50.1%	46.5%	68.1%
Banco de Credito e Inversiones	54.8	51.3	53.1
Banco de Chile	61.0	55.4	51.2
BBVA Banco BHIF	64.6	61.0	47.7
Average for four banks	55.5%	51.4%	51.7%

Source: Chilean Superintendency of Banks

(1) Calculated by dividing operating expense by operating revenue.

REGULATION AND SUPERVISION

General

In Chile, only banks may maintain checking accounts for their customers, conduct foreign trade operations and accept time deposits. The principal authorities that regulate financial institutions in Chile are the Chilean Superintendency of Banks and the Central Bank. Chilean banks are primarily subject to the General Banking Law and secondarily, to the extent not inconsistent with that law, the provisions of the Chilean Corporations Law governing public corporations, except for certain provisions that are expressly excluded.

The modern Chilean banking system dates back to 1925 and has been characterized by periods of substantial regulation and state intervention, as well as periods of deregulation. The most recent period of deregulation commenced in 1975 and culminated in the adoption of a series of amendments to the General Banking Law. That law, amended most recently in 2004, granted additional powers to banks, including general underwriting powers for new issues of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory, mutual fund services, administration of investment funds, factoring, securitization products and financial leasing services.

Following the Chilean banking crisis of 1982 and 1983, the Chilean Superintendency of Banks assumed control of 19 banks representing approximately 51% of the total loans in the banking system. As part of the assistance that the Chilean government provided to Chilean banks, the Central Bank permitted banks to sell to it a certain portion of their problem loan portfolios at the book value of the loan portfolios. Each bank then repurchased such loans at their economic value (which, in most cases, was substantially lower than the book value at which the Central Bank had acquired the loans), with the difference to be repaid to the Central Bank out of future income. Pursuant to Law No. 18,818, which was passed in 1989, this difference was converted into subordinated debt.

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The Central Bank

The Central Bank is an autonomous legal entity created by the Chilean Constitution. It is subject to its *ley organica constitucional,* or organic constitutional law, and the Chilean Constitution. To the extent not inconsistent with its organic constitutional law or the Chilean Constitution, the Central Bank is also subject to private sector laws, but is not subject to the laws applicable to the public sector. It is directed and administered by a board of directors composed of five members designated by the President of Chile, subject to Senate approval.

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

The Chilean Superintendency of Banks

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

The Chilean Superintendency of Banks examines all banks from time to time, generally at least once a year. Banks are also required to submit unconsolidated unaudited financial statements to the Chilean Superintendency of Banks on a monthly basis and to publish their unaudited financial statements at least four times a year in a newspaper with countrywide coverage. Financial statements as of December 31 must be audited. In addition, banks are required to provide extensive information regarding their operations at various periodic intervals to the Chilean Superintendency of Banks. A bank s annual financial statements and the opinion of its independent auditors must also be submitted to the Chilean Superintendency of Banks.

Any person wishing to acquire, directly or indirectly, 10.0% or more of the share capital of a bank must obtain the prior approval of the Chilean Superintendency of Banks. Without such approval, the holder will not have the right to vote such shares. The Chilean Superintendency of Banks may only refuse to grant its approval based on specific grounds set forth in the General Banking Law.

According to Article 35 bis of the General Banking Law, the prior authorization of the Chilean Superintendency of Banks is required for:

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a bank s assets and liabilities by another bank;

the control by the same person, or controlling group, of two or more banks; or

a substantial increase in the share ownership of a bank by a controlling shareholder of that bank.

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Such prior authorization is required only when the acquiring bank or the resulting group of banks would own a market share in loans determined by the Chilean Superintendency of Banks to be more than 15.0% of all loans in the Chilean banking system. The intended purchase, merger or expansion may be denied by the Chilean Superintendency of Banks, or, if the acquiring bank or resulting group would own a market share in loans determined to be more than 20.0% of all loans in the Chilean banking system, the purchase, merger, or expansion may be conditioned on one or more of the following:

- that the bank or banks maintain an effective equity higher than 8.0% and up to 14.0% of their risk-weighted assets;
- that the technical reserve established in Article 65 of the General Banking Law be applicable when deposits exceed one and a half times the resulting bank s paid-in capital and reserves; or
- that the margin for interbank loans be reduced to 20.0% of the resulting bank s effective equity.

If the acquiring bank or resulting group would own a market share in loans determined by the Chilean Superintendency of Banks to be more than 15% but less than 20%, the authorization will be conditioned on the bank or banks maintaining an effective equity not lower than 10% of their risk-weighted assets for a period set by the Chilean Superintendency of Banks, which may not be less than one year. The calculation of risk-weighted assets is based on a five category risk classification system applied to a bank s assets that is based on the Basel Committee recommendations.

Pursuant to the regulations of the Chilean Superintendency of Banks, the following ownership disclosures are required:

- banks must disclose to the Chilean Superintendency of Banks the identity of any person owning, directly or indirectly, 5.0% or more of such banks shares;
- holders of ADSs must disclose to the depositary the identity of beneficial owners of ADSs registered under such holders names;
- the depositary must disclose to the bank the identity of beneficial owners of ADSs which the depositary has registered, and the bank, in turn, must disclose to the Chilean Superintendency of Banks the identity of the beneficial owners of the ADSs representing 5.0% or more of such bank s shares; and
- bank shareholders who individually hold 10.0% or more of a bank s capital stock and who are controlling shareholders must periodically inform the Chilean Superintendency of Banks of their financial condition.

Limitations on Types of Activities

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

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On March 2, 2002, the Central Bank authorized banks to pay interest on checking accounts and the Chilean Superintendency of Banks published guidelines permitting banks to offer and charge fees for the use of a checking account product that pays interest. Under these guidelines, these accounts may be subject to a minimum balance and different interest rates depending on average balances held in the account. The Central Bank has imposed additional caps to the interest rate that can be charged by banks with a solvency score of less than A.

Deposit Insurance

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits held by individuals in the Chilean banking system. This guarantee covers obligations with a maximum value of UF108 per person (Ch$1,870,241 or U.S.$3,341 as of December 31, 2004) per calendar year.

Reserve Requirements

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

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

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

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

Chilean regulations also require that (i) gaps between assets and liabilities maturing within less than 30 days do not exceed a bank s basic capital, (ii) gaps between assets and liabilities maturing within less than 90 days do not exceed twice a bank s equity and (iii) interest rate mismatches of a bank s foreign currency liabilities do not exceed 8.0% of its effective equity ratio.

Minimum Capital

Under the General Banking Law, a bank must have a minimum paid-in capital and reserves of UF800,000 (Ch$13,854 million or U.S.$24.7 million as of December 31, 2004). However, a bank may begin its operations with 50.0% of such amount, provided that it has an effective equity ratio (defined as effective equity as a percentage of risk-weighted assets) of not less than 12.0%. When such a bank s paid-in capital reaches UF600,000 (Ch$10,390 million or U.S.$18.6 million as of December 31, 2004) the effective equity ratio requirement is reduced to 10.0%.

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Capital Adequacy Requirements

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

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

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

Lending Limits

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

- a bank may not extend to any entity, individual or any one group of related entities, directly or indirectly, unsecured credit in an amount that exceeds 5.0% of the bank s effective equity, or in an amount that exceeds 25.0% of its effective equity if the excess over 5.0% is secured by certain assets with a value equal to or higher than such excess. In the case of foreign export trade financing, the 5.0% ceiling for unsecured credits is raised to 10.0% and the 25.0% ceiling for secured credits to 30.0%. In the case of financing infrastructure projects built through the concession mechanism, the 5.0% ceiling for unsecured credits is raised to 15.0% if secured by a pledge over the concession, or if granted by two or more banks or finance companies which have executed a credit agreement with the builder or holder of the concession;
- a bank may not extend loans to another financial institution subject to the General Banking Law in an aggregate amount exceeding 30.0% of its effective equity;
- a bank may not directly or indirectly grant a loan, the purpose of which is to allow an individual or entity to acquire shares of the lender bank;
- a bank may not lend, directly or indirectly, to a director or any other person who has the power to act on behalf of the bank; and
- a bank may not grant loans to related parties (including holders of more than 1.0% of its shares) on more favorable terms than those generally offered to non-related parties. Loans granted to related parties are subject to the limitations described in the first bullet point above. The aggregate amount of loans to related parties may not exceed a bank s effective equity.

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

Allowances for Loan Losses

Chilean banks are required to evaluate their loan portfolio on a continuous basis using models and methods that follow guidelines established by the Chilean Superintendency of Banks. These models and methods, and any revision made to them, must be approved by the bank s board of directors. This evaluation is conducted in order to determine the necessary allowances to adequately cover loan losses. Each bank is required to calculate and maintain, on a monthly basis, the following types of allowances:

- allowances determined by individual analysis models (allowances for normal risk and above normal risk portfolios);
- allowances determined by group analysis models; and
- additional allowances for the loan portfolio.

Each year, a bank s board of directors must examine the sufficiency of the bank s level of allowances and provide an opinion stating whether the allowances are sufficient to cover all potential loan losses. The board must also obtain a report from the bank s external auditors as to the bank s compliance with required allowance levels. The opinion of the board of directors must be submitted in writing to the Chilean Superintendency of Banks and, if necessary, should state that additional allowances have been created as a result of the board s examination.

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

The Chilean Superintendency of Banks amended its regulations with respect to allowances effective January 1, 2004. For a discussion of loan allowances under the previous guidelines, see Selected Statistical Information Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines Allowance for Loan Losses under the Previous Guidelines.

Additional Allowances

Under the amended regulations, banks may create allowances in addition to those established pursuant to their model-based evaluation of the loan portfolio. However, a bank may create additional allowances only to cover specific risks that have been authorized by the board of directors. Our board of directors decided to establish additional allowances to cover unexpected deterioration of our portfolio with normal risk.

The concept of voluntary allowances has been eliminated by the amended regulations. See Item 4. Selected Statistical Information Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines Allowances for Loan Losses under the Previous Guidelines Voluntary Allowances for Loan Losses.

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Classification of Banks

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

Classification of Banks: Solvency and Management

In accordance with amended regulations of the Chilean Superintendency of Banks effective as of January 1, 2004, banks are classified into categories I through V based upon their solvency and management ratings. This classification is confidential.

Category I:	This category is reserved for financial institutions that have been rated level A in terms of solvency and management.
Category II:	This category is reserved for financial institutions that have been rated (i) level A in terms of solvency and level B in terms of management, (ii) level B in terms of solvency and level A in terms of management, or (iii) level B in terms of solvency and level B in terms of management.
Category III:	This category is reserved for financial institutions that have been rated (i) level B in terms of solvency and level B in terms of management for two or more consecutive review periods, (ii) level A in terms of solvency and level C in terms of management, or (iii) level B in terms of solvency and level C in terms of management.
Category IV:	This category is reserved for financial institutions that are rated level A or B in terms of solvency and have been rated level C in terms of management for two or more consecutive review periods.
Category V:	This category is reserved for is reserved for financial institutions that have been rated level C in terms of solvency, irrespective of their rating level of management.

A bank s solvency rating is determined by its effective equity (after deducting accumulated losses during the financial year) to risk-weighted assets ratio. This ratio is equal to or greater than 10.0% for level A banks, equal to or greater than 8.0% and less than 10.0% for level B banks and less than 8.0% for level C banks.

With respect to a bank s management rating, level A banks are those that are not rated as level B or C. Level B banks display some weakness in internal controls, information systems, response to risk, private risk rating or ability to manage contingency scenarios. Level C banks display significant deficiencies in internal controls, information systems, response to risk, private risk rating or ability to manage contingency scenarios.

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Classification of Banks: Models and Methods

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

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

Classification of Loan Portfolio

Chilean banks are required to classify their loan portfolio on an ongoing basis for the purpose of determining the amount of allowances for loan losses. The Chilean Superintendency of Banks establishes the guidelines used by banks for such classifications, although banks are given some latitude in devising more stringent classification systems within such guidelines.

In order to create and maintain allowances, Chilean banks use models and methods to classify their portfolio by borrower and loan type. Loans are divided into: (i) consumer loans (including loans granted to individuals for financing the acquisition of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate in which the value of the property covers at least 100% of the amount of the loan); (iii) leasing operations (including consumer, commercial and residential leasing); (iv) factoring operations and (v) commercial loans (includes loans other than those described in (i) through (iv) above).

The Chilean Superintendency of Banks amended its guidelines effective as of January 1, 2004. For a discussion of loan portfolio classification under the previous guidelines, see Selected Statistical Information Classification of Loan Portfolio and Allowances for Loan Losses under the Previous Guidelines Classification of Loan Portfolio under the Previous Guidelines.

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

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Classification of Loan Portfolio: Models Based on the Individual Analysis of Borrowers

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

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

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

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

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

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

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

(2) Allowance percentages are supported by statistical probabilities.

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

Classification of Loan Portfolio: Models Based on the Group Analysis of Borrowers

A model based on the group analysis of borrowers should be used for the evaluation of borrowers whose individual loan amounts are relatively small, primarily loans to individuals and small companies. Each bank determines the level of required allowances depending on the estimated loss that may result from the loans, by classifying the loan portfolio using one or both of the following models:

- A model based on the characteristics of the borrowers and their outstanding loans. Borrowers and their loans with similar characteristics will be placed into groups and each group will be assigned a risk level. Characteristics considered include payment behavior (with respect to the bank and other financial institutions), level of debt and financial stability.

- A model based on the behavior of a group of loans. Loans with similar payment histories and characteristics will be placed into groups and each group will be assigned a risk level.

Obligations Denominated in Foreign Currencies

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

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

- a bank s risk-adjusted net asset (liability) foreign currency position cannot exceed 20% of its net capital base;

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

- the interest rate mismatches of a bank s foreign currency liabilities may not exceed 8.0% of its net capital base.

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

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

Dissolution and Liquidation of Banks

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

Investments in Foreign Securities

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

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

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

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

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

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

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

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

PROPERTY, PLANTS AND EQUIPMENT

We are domiciled in Chile and own the building located at Ahumada 251, Santiago, Chile that is approximately 65,000 square meters and serves as our executive offices and as the executive offices for most our subsidiaries. In addition, we own an approximately 15,000 square meter building located at Huerfanos 740, Santiago, Chile where the remainder of our executive offices are located. At December 31, 2004, we owned the properties on which 129 of our full-service branches are located (approximately 103,400 square meters of office space). We lease office space for our remaining 95 full-service branches, the New York and Miami branches, as well as for our representative offices. We also own properties throughout Chile for back office and administrative operations, as well as for storage of documents and other purposes. We believe that our facilities are adequate for our present needs and suitable for their intended purposes.

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

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SELECTED STATISTICAL INFORMATION

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

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

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

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

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

and

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

Where:

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

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

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

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

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

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

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

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

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

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

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

Due to the significant revaluation of the Chilean peso against the U.S. dollar in 2004 and 2003 (the published observed exchange rate was Ch$559.83 per U.S. $1.00 on December 31, 2004 as compared to Ch$599.42 and Ch$712.38 per U.S. $1.00 on December 31, 2003 and 2002, respectively), and the fact that nominal interest rates and the inflation rate were comparatively low in 2004 and 2003, most real interest rates on foreign currency assets and liabilities shown in the tables.

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

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

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

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

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

- balances maintained in overseas banks earn interest on certain accounts in certain countries.

Consequently, the average interest earned on such assets is comparatively low. These deposits are maintained by us in these accounts to comply with statutory requirements and to facilitate international business, rather than to earn income.

The monetary gain or loss on interest earning assets and interest bearing liabilities is not included as a component of interest revenue or interest expense because inflation effects are taken into account in the calculation of real interest rates.

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The following tables show, by currency of denomination, average balances and, where applicable, interest amounts, nominal and real rates for our assets and liabilities for the years ended December 31, 2002, 2003 and 2004:

	Year Ended December 31,											
	2002				2003				2004			
	Average balance	Interest earned	Average nominal rate	Average real rate	Average balance	Interest earned	Average nominal rate	Average real rate	Average balance	Interest earned	Average nominal rate	Average real rate
	(in millions of constant Ch$ as of December 31, 2004, except percentages)											
Assets												
Interest earning assets												
Interbank deposits												
Ch$												
UF												
Foreign currency	Ch$ 220,830	Ch$ 4,059	1.84	7.52	Ch$ 123,063	Ch$ 1,866	1.52	(15.49)	Ch$ 96,720	Ch$ 2,362	2.44	(6.59)
Total	220,830	4,059	1.84	7.52	123,063	1,866	1.52	(15.49)	96,720	2,362	2.44	(6.59)
Financial investments												
Ch$	470,666	28,043	5.96	3.05	800,071	28,387	3.55	2.45	988,338	26,278	2.66	0.22
UF	710,289	51,606	7.27	4.32	154,201	8,064	5.23	4.12	136,411	8,332	6.11	3.59
Foreign currency	703,395	54,931	7.81	13.83	869,376	(56,216)			709,463	4,833	0.68	(8.19)
Total	1,884,350	134,580	7.14	7.55	1,823,648	(19,765)			1,834,212	39,443	2.15	(2.78)
Commercial loans												
Ch$	910,467	107,101	11.76	8.70								