

# Banco de Chile

*ANNUAL REPORT 2008*



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# Banco de Chile



## *OUR MISSION*

We are a leading financial corporation with a prestigious business tradition. Our call purpose is to provide financial services of excellence, offering creative and effective solutions for each customer segment and thus ensuring permanent value growth for our shareholders.

## *OUR VISION*

To be the best bank for our customers, the best place to work and the best investment for our shareholders.

# CHAIRMAN'S LETTER



## **Dear Shareholders,**

It is a particular pleasure for me to present you the annual report and financial statements for the year 2008, a period in which we agreed the absorption of Citibank Chile's business and began a momentous strategic alliance with Citigroup Inc. The year was also marked by the beginning of worldwide extreme turbulence in the capital markets, a phenomenon from which Chile has not escaped and which will have effects that we shall continue observing during 2009. Despite this, it was a year of excellent results with an important growth in volumes and the variety of business undertaken.

The extraordinary shareholders meeting held on December 27, 2007 approved the merger by absorption of Banco de Chile and Citibank Chile, a subsidiary of Citibank N.A. of the United States of America. Banco de Chile issued new shares for this transaction which today represent 10.44% of the total shares issued. Following the approvals of all the regulators involved, the Bank thus opened its doors on January 2, 2008, after having unified its financial and commercial operations, hence completing the merger in a very short time and with practically a full integration of functions for customers of the former banks. This was of course a very complex transaction, not exempt from those difficulties common to processes of this kind. However, by the second half of the year, we could appreciate with satisfaction that the benefits expected from this merger and strategic alliance had begun to bear fruits. On one hand, we were gradually recovering our customer's satisfaction levels and, on the other hand, the synergies estimated in our projections started to materialize and we began to appreciate the benefits of joint or coordinated actions

with Citigroup. In particular, I emphasize the international services provided to corporate and multinational customers, the wide range of treasury products available to companies and a superior presence in investment banking business during the year. With respect to retail banking, the use of the new Banco Edwards Citi corporate image for the branch network that brought together the offices of Banco Edwards and of the former Citibank proved to be an effective strategy for maintaining the vast majority of our customers. The combination of the Banco CrediChile consumer division with Financiera Atlas was successfully completed last November to produce one network under the Banco CrediChile brand, with a fully unified sales, service and collections model.

In the area of economics, I recall that when we presented you the annual report for 2007, we mentioned that the mortgage crisis in the United States of America was affecting that country's growth rate and having an impact on liquidity on an international scale. The situation became much more serious in September 2008 when, in conditions characterized by mistrust by all parties, large banks collapsed in various countries of the world, prices on the most important stock markets fell, panic spread among investors in some markets, bank intervention and nationalization occurred to banks from important economies, and finally there was a massive liquidity injection by monetary regulators.

While Chile has been facing this scenario in a relatively advantageous position as a result of the earlier accumulation of international reserves and fiscal savings, we should remember that we are not immune to these events. In recent months, the local capital markets suffered an important liquidity shortage, principally in foreign currency, a situation that banks in Chile and especially Banco de Chile were able to resolve with a good outcome. The volatility of the monthly inflation rate and exchange rates has been another aspect of the second half of 2008. In particular, Banco de Chile's self-imposed additional strict liquidity standards and strengthened its commercial relations with correspondent banks and institutional investors which enabled it to maintain intact its solid financial position and confirm its high reputation in Chile and abroad.

It should be mentioned that among other remarkable events during 2008, Banco de Chile obtained several loans from important foreign banks, even in the periods of greatest market concerns. Specifically, the signing of a loan granted by a bank in the Popular Republic of China, the first sign that the efforts made for building strong and long-term commercial relations with Asian banks were succeeding.

We are conscious that the recession already affecting Europe and the United States is having repercussions in Chile and we know we only just now perceive the first impacts. I have no doubt that 2009 will be a difficult year. The low growth projected for domestic demand and economic activity in general, makes us cautious when making forecasts regarding our industry performance. This is why the Bank's Board has favored the maintenance of the prudent credit policies that have characterized us in previous years. It is in our interest to continue assisting customers to overcome this low point in the economic cycle but, at the same time, to reinforce the importance of strict supervision of the loan portfolio quality, acting constantly with responsibility and precaution.

Regarding the results contained in the financial statements I am presenting to you, I should confirm that Banco de Chile has once again earned an annual return on capital much higher than the

average of the banking system, reaching 22.6%. Although this return rate is below the figure of the previous year, I should point out that the present one is based on capital and reserves substantially higher than those at the end of last year, increased by Ch\$322 billion as a result of the merger already mentioned. The year's net income thus was Ch\$272 billion, equivalent to earnings per share of Ch\$3.368272.

I would like to praise the Bank's management and every member of the corporation. The effort and enthusiasm shown during the year just ended made excellent results possible in a particularly complex scenario. I am confident that we shall count on all their skills to continue growing the prestige, reputation and strength of this institution.

Knowing that Banco de Chile has to maintain a position of undisputed leadership in the Chilean capital markets, I would like to make clear the commitment of the Board of Directors to continue promoting those initiatives that guarantee excellence in the provision of financial services to individuals and companies.



**Pablo Granifo L.**  
Chairman of the Board

# HISTORICAL OUTLINE

## Banco de Chile



**1894** Banco de Chile is a banking corporation established in Chile that began to operate in this name on January 2, 1894 with the merger of the businesses of three banks: Banco de Valparaíso, founded in 1856; Banco Nacional de Chile, founded in 1865; and Banco Agrícola de Chile which started to operate in 1869. In this sense, Banco de Valparaíso, the first bank in Chile constituted as a corporation, is the real origin of Banco de Chile.

However, Banco de Chile (under that commercial name) appeared in Chile's history in 1859. The president of the Republic, Manuel Montt, signed a decree on November 17, 1859 authorizing the existence of Banco de Chile; which was officially opened on April 1, 1860 and operated under that name until 1865. That year, a new bank was formed with the name Banco Nacional de Chile, which absorbed Banco de Chile's business, an entity which following that merger would revert to its original name 29 years later.

Established after the economic crisis that followed the 1891 Revolution, Banco de Chile in its early years performed an important role in support of fiscal policies and the local banking system stability. It was thus at the authorities request that in 1895 it absorbed the assets and liabilities of Banco Crédito Unido. The same year, it took over the assets and liabilities of Banco Internacional and in 1896 of Banco Comercial de Chile. Then, between 1898 and 1902, Banco de Chile contributed again by resisting the crisis and supporting the State in the period in which convertibility to gold for banknotes issued by private banks was ended, at which time the issue of a sole officially-issued paper currency began.

**1907** In 1907, Banco de Chile opened an agency in London which was vital for obtaining foreign banks finance and for developing foreign trade to and from Chile. This new agency was of great importance to the country during the economic growth Chile experienced during the First World War and later in the search for solutions after the sudden crash in nitrates prices in the 1920s.

**1926** In April 1926, the Bank relocated its head office from that of Banco Nacional de Chile in Huérfanos Street 930 to a brand-new building at Ahumada Street 251, the institution's present head office.

That same year, the Banco Central de Chile was created and a new General Banking Law passed which gave rise to the Superintendency of Banks, which replaced the General Inspectorate of Banks which had existed since 1912. The Banco Central de Chile then became the most important agent in the banking system stabilization, a role which Banco de Chile had performed to a large degree over previous decades.

The Bank survived the 1930s crisis thanks to its strong capital base; and continued its development, remaining during that period as the country's largest bank and one of the most respected and solid corporations.

**1973** In 1973, following the bank nationalization process ordered by the government, the Corporación de Fomento (CORFO), a state entity, acquired the position as the largest shareholder in Banco de Chile which enabled it to appoint the chairman of the Board. The Bank was re-privatized in 1975. Two years later, Leasing Andino was formed in association with Banco de Vizcaya, Spain, and Orient Leasing, Japan, a company that would become the pioneer and market leader in this business.

**1982** Banco de Chile opened a branch in New York in 1982 to offer checking account services and to finance foreign trade for Chilean and foreign customers doing business with Chile. An agency was then added in Miami in 1993.

Following the serious economic crisis of 1981, the authorities intervened the Bank in January 1983, finding its loan portfolio severely impaired and having completely lost its capital base. Following a capitalization process, the ownership and control of the Bank was again passed to private investors in 1987, involving the incorporation of more than 30,000 new shareholders through what was called "popular capitalism".

**1986** In 1986, Banco de Chile acquired the assets and liabilities of Banco Continental and in 1987 absorbed the business of Banco Morgan Finansa. By the end of 1990, Banco de Chile had a 13.3% market share and was the country's second largest bank, after Banco del Estado de Chile.

In 1990, the Bank closed its representative office in London, transferring the business to Frankfurt; this was then closed in 2000. During the 1990s, Banco de Chile opened representative offices in Buenos Aires, Sao Paulo and Mexico City.

**1993** Banco CrediChile was created in 1993, a division with its own branches network and specializing in consumer loans for individuals of medium to low incomes. This division in 2002 then absorbed Finandes, the consumer division of Banco de A. Edwards, and in 2008 Financiera Atlas, the consumer division of Citibank Chile.

The crisis at the beginning of the 1980s left the Bank with the obligation to repay to the Central Bank of Chile for the loans provided by it to replace its assets. In 1996, in order to grant Banco de Chile independence from this obligation, leaving the responsibility for this to its shareholders, a corporate reorganization was made by the creation of a new commercial bank, a subsidiary of the former, which assumed its assets and liabilities with the exception of the debt with the Central Bank. This new commercial bank is the legal successor of the former and took over the name of Banco de Chile. The subordinated obligation remains with the former bank which changed its name to Sociedad Matriz del Banco de Chile.

**2000** By the end of 2000, Banco de Chile had a market share of 12.2%, being Chile's third largest bank, behind Banco Santiago and Banco del Estado de Chile.

**2002** In January 2002, Banco de Chile agreed its merger with Banco de A. Edwards. At that time, Banco de Chile was the second largest in the country with Banco de A. Edwards in fifth place, with respective market shares in total loans of 12.0% and 7.4%. The Bank then operated three branch networks with different brands: Banco de Chile, as a universal bank with coverage throughout Chile; Banco Edwards, with a network concentrated on retail banking, operating mainly in Santiago; and Banco CrediChile, focused on consumer loans and charge accounts. Following the merger, Quiñenco S.A., a company linked to the Luksic family, which was the main shareholder in both banks, acquired the majority shareholding in Banco de Chile.

**2008** With the approval of their respective shareholders meetings, Banco de Chile in January 2008 took over the assets and liabilities of Citibank Chile, the Chilean subsidiary of Citigroup Inc. of the United States of America. At the date of the merger, Banco de Chile had a market share of 18.0% and Citibank Chile 2.1%. Simultaneously with the merger, Citigroup became an associate of Quiñenco, the controlling shareholder in Banco de Chile, by sharing the ownership of LQ Inversiones Financieras S.A. (67% Quiñenco and 33% Citigroup), a company that held voting rights of 61.7% at December 2008. Banco de Chile and Citigroup also signed the Cooperation Agreement and the Global Connectivity Agreement which contemplate mutual support for executing businesses related to payment services and international cash management, custody services for foreign investors, investment banking, international checking accounts, etc. A licensing contract was also signed permitting the limited use of the Citi brand by Banco de Chile. The Banco Edwards branch network therefore assumed the new image "Banco Edwards | Citi". As part of the agreements entered into, Banco de Chile sold to Citigroup Inc. its banking operations in New York and Miami.

The shares of Banco de Chile are listed on the Santiago Stock Exchange, the Chilean Electronic Exchange and the Valparaiso Stock Exchange. Since 2002, under an American Depositary Shares (ADS) program, the Bank's shares have also been traded on the New York Stock Exchange (NYSE). Since 2003, the same ADS program is also traded on the London Stock Exchange (LSE), while the shares are also registered on Latibex, a trading platform belonging to the Madrid Stock Exchange.





*TRADITION*

*SUPPORTED BY A  
CENTENNIAL HISTORY*



*CORPORATE GOVERNANCE  
AND CAPITAL STRUCTURE*

*Banco de Chile*

# BOARD OF DIRECTORS



**Pablo Granifo L.**  
Chairman

**Andrónico Luksic C.**  
Vice Chairman



**Raúl Anaya E.**  
Director



**Jorge Awad M.**  
Director



**Guillermo Luksic C.**  
Director



**Gonzalo Menéndez D.**  
Director



**Rodrigo Manubens M.**  
Alternate Director



**Thomas Fürst F.**  
Alternate Director



**Jacob Ergas E.**  
Director



**Jaime Estévez V.**  
Director



**Juan Andrés Fontaine T.**  
Director



**Francisco Pérez M.**  
Director



**Fernando Quiroz R.**  
Director



**Hernán Büchi B.**  
Adviser to the Board



**Jorge Ergas H.**  
Adviser to the Board



**Francisco Garcés G.**  
Adviser to the Board

# BOARD OF DIRECTORS

## CHAIRMAN AND VICE CHAIRMAN

### Pablo Granifo L.

Chairman of the board of Banco de Chile since 2007 and before he was the Bank's chief executive officer for six years. He was chief executive officer of Banco A. Edwards between 2000 and 2001, and Commercial executive vice president of Banco Santiago. He is currently chairman of the boards of the following Banco de Chile' subsidiaries: Banchile Administradora General de Fondos S.A., Banchile Asesoría Financiera S.A., Banchile Securitizadora S.A., Banchile Factoring S.A., Banchile Trade Services Limited and Socofin S.A. and chairman of the executive committee of Banchile Corredores de Seguros Limitada. He is also a member of the board of the Asociación de Bancos e Instituciones Financieras, Nexus S.A., Servipag S.A. and Redbanc S.A. as well as vice chairman of Transbank S.A. He is a commercial engineer from the Pontificia Universidad Católica de Chile.

### Andrónico Luksic C.

Vice chairman and member of the board of Banco de Chile since 2002. He is chairman of Sociedad Matriz Banco de Chile S.A., vice chairman of Quiñenco, member of the board of Compañía Cervecerías Unidas S.A., Manufacturas de Cobre Madeco S.A. and of the Santiago Stock Exchange; counsellor for the Sociedad de Fomento Fabril and for the Fundación Chile-Pacífico. He is member of the boards of important universities in the United States and in China, member of the International Business Leader's Advisory Council of the Mayor of Shanghai, counselor of the Panama Canal Authority and member of ABAC (APEC Business Advisory Council). He was chairman of the boards of the banks A. Edwards, Santiago and O'Higgins.

## DIRECTORS

### Raúl Anaya E.

Member of the Board since January 2008. He is General Director for Central America and the Caribbean of Citigroup since 2008. During 2005-2008 he was the director responsible for retail and consumer banking for Latin America of Citigroup and previously was responsible for the executive management of consumer assets of Banamex, Mexico. He was also chief executive officer of Banamex in its offices in Los Angeles, Houston and New York. He was a director of California Commerce Bank, Banco Bansud in Argentina and Grupo Financiero Uno in Central America. Business administration studies at the Universidad La Salle in Mexico.

### Jorge Awad M.

Member of the Board since 1996, and is chairman of the Bank's Directors and Audit Committee. He is also chairman of the Board of Lan Airlines S.A. and a director of Envases del Pacífico S.A., Universidad de Talca, Fundación Prohumana; and vice chairman of ICARE. He has been a director of Codelco Chile, Televisión Nacional de Chile, Banco de Santiago and Laboratorios Chile S.A. He is a commercial engineer from the Universidad de Chile and professor of corporate enterprise and governance at that university.

### Jacob Ergas E.

Board member since 2002. He is also a member of the board of Banchile Administradora General de Fondos S.A., chairman of the board of J. Ergas Inversiones y Rentas Limitada, Ever I BAE S.A., Ever II, Inmobiliaria Paidahue S.A. and INERSA S.A. He was a member of the board and vice chairman of Banco de A. Edwards from 1986 to 2001 and director of the Asociación de Bancos e Instituciones Financieras.

### Jaime Estévez V.

Joined the board in 2007. He is a member of the Bank's Directors and Audit Committee. He is currently also a director de Endesa Chile and chairman of the Directive Council of Instituto Profesional ARCOS. Previously, he was chairman of Banco del Estado as well as a director of AFP Provida and AFP Protección. He has been Minister of Public Infrastructure, Transport and Telecommunications, and was a deputy and chairman of the Chamber of Representatives. He is a commercial engineer from the Universidad de Chile.

### Juan Andrés Fontaine T.

Director since 2008. He is currently a partner in Fontaine y Paul Consultores and a member of the board of Quiñenco S.A. Previously; he was a member of the board of Banco Santander Chile and director of research of Banco Central de Chile. He is a commercial engineer from the Pontificia Universidad Católica and master in economics from the University of Chicago.

## **Guillermo Luksic C.**

Member of the board since 2001. He is Chairman of the Boards of Quiñenco S.A., Compañía Cervecerías Unidas S.A., Viña San Pedro S.A. and CNT Telefónica del Sur S.A. He is also a member of the board of Antofagasta PLC and Nexans (France). He was a member of the board of Banco Santiago, and is a member of the Centro de Estudios Públicos and of the Universidad Finis Terrae Council.

## **Gonzalo Menéndez D.**

Board member since 2001, chairman of the board of the subsidiary Banchile Corredores de Bolsa S.A. and a member of the board of Banchile Seguros de Vida S.A. He is also chairman of the board of Banco Latinoamericano de Exportaciones and Inversiones Vita S.A., and a member of the board of Compañía Nacional de Teléfonos, Telefónica del Sur S.A., Compañía de Teléfonos de Coyhaique S.A., Quiñenco S.A., Antofagasta PLC, Minera Michilla S.A., Mining Group Antofagasta Minerals S.A., Antofagasta Railway, Minera Los Pelambres, Minera El Tesoro and Aguas de Antofagasta S.A. He is also vice chairman of Fundación Andrónico Luksic A. and of Fundación Pascual Baburizza. He was previously a member of the board of Banco Santiago and Banco de A. Edwards. He has a degree in commercial engineering and accounting from the Universidad de Chile.

## **Francisco Pérez M.**

Is member of the board of Banco de Chile since 2001 and of the subsidiary Banchile Corredores de Bolsa S.A. Chief executive officer of Quiñenco S.A. since 1998 and member of the board of Compañía de Cervecerías Unidas S.A. He is a commercial engineer from Pontificia Universidad Católica de Chile and has an MBA from the University of Chicago.

## **Fernando Quiroz R.**

He is member since 2007 and member of the Directors and Audit Committee. Director General of markets & banking for Latin America of Citibank, chairman of the council of Banamex Stocks and Securities Administration (Accival), corporate director and director of specialized banking in Banamex. He is member of the management committee of Citibank and of the executive committee of Citi Markets & Citi Banking. Previously, Mr Quiroz was corporate director of planning and corporate development of Banamex and Citibank for Latin America, and also performed various functions in consumer banking, international banking, investment banking and strategic planning in Banamex (Mexico).

## **ALTERNATE DIRECTORS**

### **Rodrigo Manubens M.**

Director since 2001 and currently being an alternate director. He is chief executive officer of LQ Inversiones Financieras S.A. and chairman of Banchile Compañía de Seguros de Vida S.A. He was chairman of the banks Tornquist (Argentina) and Del Sur (Peru). He was previously a director of Banco de A. Edwards, Banco O'Higgins and Banco Santiago, and chairman of Endesa Chile S.A. He has a degree in business administration from the Universidad Adolfo Ibáñez and has an MSc degree from the London School of Economics and Political Sciences (LSE).

### **Thomas Fürst F.**

Alternate director since 2007 and member of the Board from 2004 to 2007. He is a director of Banchile Administradora General de Fondos S.A., Plaza Vespucio and other Plaza Group companies. He was vice chairman of Compañía Cervecerías Unidas and a member of the board of Ecusa, Viña San Pedro, Southern Breweries Establishment and Compañía Cervecerías Unidas Argentina. He was founder and member of the board of Parque Arauco. Studied civil construction at the Pontificia Universidad Católica de Chile.

## **ADVISERS TO THE BOARD**

### **Hernán Büchi B.**

Joined the Banco de Chile's Board in 2007 and has been an adviser to the Board since 2008. He is chairman of the Consejo Directivo de la Universidad del Desarrollo and adviser to the Instituto Libertad y Desarrollo. He is also a director of well-known Chilean private-sector companies like Quiñenco S.A., Consorcio Nacional de Seguros and Falabella S.A. He was Minister of Finance (1985 – 1989) and his previous positions included Superintendent of Banks, Minister of Planning and Deputy Secretary for Health. He is a civil mining engineer from the Universidad de Chile and has a master degree from the University of Columbia.

### **Jorge Ergas H.**

He was elected Alternate director in 2005, being counselor to the Board since 2002. He is vice chairman of Banchile Compañía de Seguros de Vida S.A., vice chairman of Orion Seguros Generales S.A., chairman of Movicenter and a director of Inersa S.A., Ever I BAE and Ever II HNS. He was previously a director of Hotel Plaza San Francisco, Casa Piedra, HNS and Inmobiliaria Paidahue.

### **Francisco Garcés G.**

Adviser to the board since 2002. Alternate member of the Private Sector Advisory Council for APEC Leaders. He was adviser and member of the board of Banco O'Higgins and Banco Santiago, professor at the School of Economics of Universidad de Chile, executive director of the IMF, Washington D.C., international director of the Banco Central de Chile and director of the Global Economy Center of Libertad y Desarrollo. He is a commercial engineer from the Pontificia Universidad Católica de Chile and performed post-graduate studies at Phd level at the University of Columbia.

# CORPORATE GOVERNANCE PRACTICES

## Structure and Principles

The corporate governance practices of Banco de Chile are governed by its bylaws, the General Banking Law, the Corporations Law, the Securities Market Law and the regulations of the Chilean Superintendency of Banks and Financial Institutions (SBIF) and the Superintendency of Securities and Insurance where applicable.

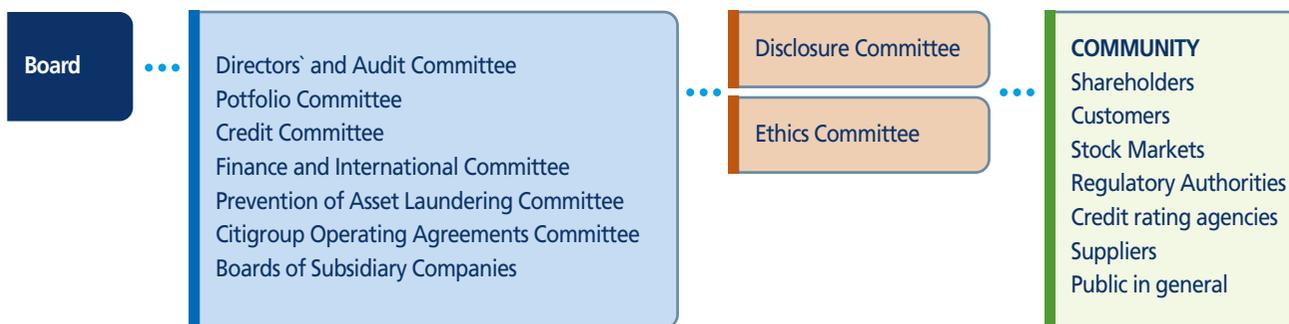
One of the most important objectives of Banco de Chile is to build long-term business relations with its customers, both for their benefit and that of its shareholders, staff and in general the community in which it operates. The corporate governance practices and principles pursue continuous improvements of internal self-regulation mechanisms to ensure full compliance with current regulations, assuring constant adhesion to the corporation's values.

The institutional priorities are governed by ethical principles in all aspects of our business. The Bank's Board of Directors has explicitly stated and approved the Ethics Code which sets out the fundamental principles that serve to guide its decisions and lead the organization's business activity. This Code incorporates our

fundamental principles like compliance with the law and internal and external regulations, confidentiality, integrity and responsibility, both corporate and individual.

The Bank's Board, consisting of eleven directors and two alternate directors, is the structure that defines the corporation's strategic guidelines. The complete Board of Directors is elected every three years. The present Board was elected in March 2008 when the shareholders confirmed the permanence of all its members for a new period. The chief executive officer is appointed by the Board and remains in that position as long as the Board decides. According to the law and the bylaws, ordinary Board meetings must be held at least once a month. In practice, the Board meets twice a month, except in February. Extraordinary meetings may be called by the Chairman of the Board or at the request of one or more Board members.

The Board delegates certain functions and activities to the Directors' Committees. This provides for an analysis of specific matters in depth and provides the Board with the information necessary for the discussion and debate of the general policies and guidelines covering the Bank's businesses.



## Directors' and Audit Committee

The Board meeting (No.2596) of Banco de Chile held on March 24, 2005 agreed that the Directors' Committee would include as one of its own functions the obligations and responsibilities of the Audit Committee. A new statute was therefore established in accordance with the requirements set out in clause 50 bis of the Corporations Law No.18,046 and Chapter 1-15 of the Current Rules of the Superintendency of Banks and Financial Institutions (SBIF). The committee's operating expenses budget is approved annually by the Ordinary Shareholders Meeting.

The Directors' and Audit Committee is responsible for examining the reports of the external auditors, balance sheets and other financial statements; proposing the external auditors and credit-rating agencies; examining the details of transactions with related parties; and analyzing the senior executives' remuneration systems and compensation plans.

Chapter 1-15 of the Rules of the SBIF, taking into account the growing trend toward more self-regulation of the financial system and in order to produce greater efficiency in internal control systems and compliance with local and international regulations, states that this committee is responsible for different aspects that involve the maintenance, application and functioning of the Bank's internal controls, its business activities risks and compliance with the regulations and procedures.

Under Chilean law, the Directors' and Audit Committee should comprise three members, the majority of whom should be independent of the controller. The members of the committee will remain in their positions for a maximum term of three years or until the end of the term of the Board, if earlier. At its meeting (No.2,643) held on April 12, 2007, the Board agreed to appoint as members of the Directors' and Audit Committee, Jorge Awad M. (Chairman and the expert member on financial affairs), Jaime Estévez V. and Thomas Fürst F. At its meeting (No.2,660) held on January 24, 2008, the Board agreed to appoint Fernando Quiroz R. as a new member of the Directors' and Audit Committee due to the resignation from that position presented by Thomas Fürst F.

As stated in the committee's bylaws, the chief executive officer, legal counsel and controller, or their respective deputies, shall also attend the meetings. The committee may also invite certain people to take part in one or more meetings. The committee's organization, objectives, responsibilities and scope of its work are contained in the bylaws whose amended and complemented text was agreed at the meeting (CDA-05) held on July 27, 2005.

The committee's objectives are to seek the efficiency, maintenance, application and functioning of the internal control systems and compliance with rules and procedures; supervise compliance of the rules and procedures governing the banking business and identify the business risks of the Bank and its subsidiaries; supervise the functions of the Companies and Market Risk Division, and Individual Credit Risk Division ensuring its independence from the management; supervise the functions of the Compliance Division, to serve as a link and coordinator of tasks between the internal audit work and the external auditors, also acting as a link between these and the Bank's Board and perform the functions and responsibilities set out in clause 50 bis of the Corporations Law 18,046 and Chapter 1-15 of the Rules of the SBIF.

# CORPORATE GOVERNANCE PRACTICES

The committee met on 17 occasions during 2008 and the matters examined included:

- Examination of the fees budgets for the external auditors and for the credit-rating agencies.
- Analysis of the reports, content, procedures and scope of the revisions of the external auditors and credit-rating agencies.
- Information on and analysis of the annual internal audit program and the results of internal audits and revisions.
- Analysis of the interim and annual financial statements.
- Analysis of the Bank's financial statements included in the form 20-F, for presentation to the Securities and Exchange Commission – SEC (USA).
- Information on accounting changes occurring during the year and their effects.
- Revision of special cases affecting the internal control systems.
- Analysis of the remuneration systems and compensation plans for managers and senior executives.
- Analysis of the 2008 performance self-evaluation process carried out by the Bank.
- Analysis of related-party transactions, being those referred to in clauses 44 and 89 of the Corporations Law No.18,046.
- Analysis of policies relating to operational risk and progress in the risk-management process and SOX self-evaluation, in the context of Basle II.
- Information on and analysis of matters related to the Compliance Division, regarding principally to the revision of policies for detecting and sanctioning money-laundering transactions.
- Revision of customer reports made through the SBIF.

## Loan Portfolio Committee

The main function of this committee is to be informed of changes in the composition and risk of the Bank's loan portfolio from both a global perspective and from a sector point of view, segmented by line of business. The committee reviews in detail the most important debtors, the overdue rate, past-due loan indicators, write-offs and allowances for the loan portfolio for each segment, and propose differentiated management strategies.

It is also the responsibility of this committee to discuss and prepare proposals to be approved by the Board with respect to credit policies, portfolio evaluation criteria and the calculation of allowances to cover expected losses in the portfolio, plus revising the analyses of allowances adequacy.

In addition, it authorizes extraordinary write-offs of loans where recovery efforts have been exhausted, and controls the liquidation of assets received in lieu of payment.

This committee comprises two directors plus the chief executive officer, the Companies Credit Risk and Market Risk manager, the Individual Credit Risk Division manager and the Risks and Restructuring Control manager. Meetings are held monthly.

## Credit Committee

For taking commercial loan credit decisions, the Bank works with a governance structure related to the different commercial segments and types of risk involved. Each credit decision should have the participation of the committee's members who have sufficient discretionary to taking the decision.

The great majority of company credit decisions, of group risk amounts greater than UF 6,000, involve a member of the Companies Credit Risk and Market Risk Division, forming credit committees which in their maximum expression correspond to the Board Credit Committee, comprising the chief executive officer, the manager of the Companies Credit Risk and Market Risk Division and at least three Board members, which review weekly all operations related to groups with approved credit facilities exceeding UF 750,000.

The Companies Credit Risk and Market Risk Division participates in each committee independently and autonomously from the commercial responsible.

For the retail segments, there are credit committees that operate by exception and relate to those cases in which operations do not meet the customer's profile policies, payment behavior, or parameters associated with maximum amounts to be financed.

## Finance, International and Financial Risk

The main function of the Finance, International and Financial Risk Committee is to validate the evolution and current status of the financial positions and market risks – of price and liquidity – that these have generated in the past and those currently being generated, particularly the control of risks related to limits and/or warnings, both internal and of a regulatory nature. Knowledge of the current status of market risks permits forecasting potential future losses with a certain level of confidence in the event of adverse movements in the most important market variables (exchange rates, interest rates and options volatility) or a liquidity tightness (whether relating to trading in financial instruments or funding).

The committee also validates in particular the estimation of results that these financial positions generate in isolation in order to measure the risk/return ratio of treasury business related to the financial positions managing, and changes in the use of capital and the forecast of this according to the best estimation of credit and market risk that the Bank will face in the future. The committee also analyzes the liabilities international financial exposure and the major credit exposures generated by derivative transactions.

The committee also designs the policies and procedures regarding to the financial positions limits and warnings setting, as well as their control and reporting. Once revised by all its members, the policies and procedures are submitted to the Bank's Board for its approval.

The committee meets monthly and is composed of the Chairman and four Board members, the chief executive officer, the Companies Credit Risk and Market Risk Division manager, the manager of Corporate and Investments Division, the Financial Control and Management Division manager, and the Financial Risk Area manager who acts as the secretary.

# CORPORATE GOVERNANCE PRACTICES

## Prevention of Asset Laundering Committee

Banco de Chile set up its Prevention of Asset Laundering and Financing of Terrorism Committee in April 2006. Its purpose is to define the policies and procedures making up an Asset Laundering and Financing of Terrorism Prevention System, evaluate compliance and decide on all matters related to these subjects.

The committee's policies are intended to prevent the corporation from being used to legitimate assets deriving from illicit operations and/or obtaining finance for terrorism, and also not to expose the Bank to reputation, operative and/or legal risks, and to comply strictly with the current and future law and regulations.

This committee comprises the Chairman of the Board, the chief executive officer, the legal counsel, the Operations and Technology Division manager and the chief executive officer of Banchile Administradora General de Fondos. The Companies and Market Risk Division manager, the Compliance Division manager and the Prevention of Asset Laundering Area manager are also members of this committee with the right to speak.

The Committee meets monthly and has the following functions:

- To approve the policies and procedures concerning knowledge of customers and their activities, and the acceptance and follow-up of their accounts, products and operations.
- To approve policies and procedures concerning unusual transaction detection systems, formal channels of information to senior levels and monitoring, analysis and reporting mechanisms.
- To approve policies and procedures concerning vigilance methods and relations with correspondent banks.
- To approve policies and procedures concerning staff selection, training programs and code of conduct.
- To approve the Policies and Procedures Manual for Prevention of Asset Laundering and Financing of Terrorism.
- To appoint persons to perform specific functions in accordance with current regulations concerning the prevention of asset laundering and financing of terrorism.
- To analyze the results of the validations made to verify compliance with current policies and procedures.
- To be informed of the transactions analyzed and decisions taken by the Transactions Analysis Committee.
- To be informed about activities developed relating to the training of staff in asset laundering and financing of terrorism matters.
- To be informed of and approve modifications to procedures proposed by the Compliance Division to improve existing controls for the prevention of asset laundering and financing of terrorism.
- To inform the Board of regulatory changes related to the prevention of asset laundering and financing of terrorism.

### Disclosure Committee

In 2003, Banco de Chile set up a Disclosure Committee to check the accuracy and depth of financial information given to the market.

This committee comprises the chief accountant, the senior lawyer for international matters, the Controller's Division manager, the Financial Control and Management Division manager, the Research and Planning Area manager, and the Investor Relations manager, who review the quarterly reports and in general all the financial information disclosed by the Bank prior to its publication.

### Ethics Committee

The Ethics Committee, formed in 2005, has the mission of defining, promoting and regulating in the corporation behaviour of professional and personal excellence by all the staff of Banco de Chile, coherent with the company's philosophy and values, in order to respond to the trust granted in it by customers.

To comply with these objectives and promote a culture of ethical behaviour, the committee is developing activities in the areas of rules, training and communications. It sets policies and checks their compliance, prepares training plans related to ethics in our business and publishes, informs and reinforces the various dimensions of ethical behaviour. The committee is the resolution authority for different situations in which there is a conflict between a certain conduct and the values promoted by the Bank.

This committee is presided over by the manager of the Human Resources Division and comprises the legal counsel and the managers of the Controller's, Compliance, Individuals and Middle Market Companies, Operations and Technology, and Large Companies and Real Estate divisions.

# CORPORATE GOVERNANCE PRACTICES

## Citigroup and Banco de Chile Cooperation Agreements Committees

In order to control and review the evolution of the joint initiatives resulting from the strategic association between Banco de Chile and Citigroup (formalized in the Cooperation Agreement signed by both and the related Global Connectivity Agreement), four committees have been set up to ensure the operation of the Direction Committee referred to in that agreement: Global Transactional Services Committee (GTS), International Personal Banking Committee (IPB), Investment Banking Committee and the Agreement's Financial Control Committee.

The Direction Committee of the Global Connectivity Agreement and thus the four committees already mentioned, are formed by the Chairman of the Bank, the chief executive officer and the two members of the board representing Citigroup. Also taking part in these meetings are the division managers related to each business and the managers of the areas directly responsible for the respective businesses. Each of these committees met 11 times during 2008.

- **Global Transactional Services Committee (GTS)**

The main objective of the Global Transactional Services Committee is to monitor the performance of the products and services area from an overall perspective, according to the Global Connectivity and Cooperation Agreements and, in particular, the functioning of the local and international cash management, custody for foreign investors and foreign trade services. This committee meets once a month.

- **International Personal Banking Committee (IPB)**

The main objective of the International Personal Banking Committee is to monitor the functioning of the Global Connectivity and Cooperation Agreements in relation to the services provided by Banco de Chile to Citibank with respect to its financial products and services offered abroad to residents of Chile.

In its first year of functioning, the committee concentrated a large part of its efforts on monitoring the transfer of the services provided by the branches in New York and Miami to Chilean customers, operations that were sold to Citibank. This committee seeks to promote actions that strengthen the commercial activity of Citibank oriented to individuals' non-resident in the United States. This committee meets monthly.

- **Investment Banking Committee**

The main objective of the Investment Banking Committee is to favor the development of cross-border merger and acquisition transactions, issues and acquisitions of debt paper and capital markets for the Bank's customers and customers of Citigroup that do business in Chile. This committee is responsible for monitoring the execution out of those transactions performed under the Global Connectivity Agreement, and collaborating in the exploration of investment banking business opportunities, plus ensuring that the agreements signed covering these matters are met. This committee meets monthly.

- **Financial Control Committee of the Cooperation Agreement**

The most important purpose of the Financial Control Committee of the Cooperation Agreement is to monitor in detail the operative and financial performance of the Global Connectivity and Cooperation Agreements signed with Citigroup. This committee checks that solutions are reached for all administrative and operative matters that permit the joint businesses to be carried out effectively, efficiently and profitably by both parties. The committee should ensure compliance with these agreements in the three matters indicated above.

Should any additional agreement be needed, this is analyzed by the committee, as well as any interpretation required for its execution. At its monthly meetings, this committee receives a report from the Financial Control and Management Division relating to the income statement associated with the strategic alliance.

## Compliance

One of the most important tasks of the Compliance Division is the definition of internal regulations jointly with the commercial and operations areas. In addition it should ensure compliance with specific aspects related to the regulatory requirements established for preventing asset laundering. It is also responsible for the implementation of the policies and procedures defined following the merger between Banco de Chile and Citibank.

The Division operates independently and reports directly to the Directors' and Audit Committee. It is responsible for these matters in the Bank and all its subsidiaries.

Banco de Chile has a programme for the prevention of asset laundering and financing of terrorism, which executes all required actions for strengthening and ensuring compliance with the regulations on this matter, in the businesses of both the Bank and its subsidiaries.

Effective January 2008, the Compliance Division modified its structure by incorporating the functions of regulatory compliance related to the process of implementation of policies and procedures affecting matters like personal investments, operations with related companies, ethics code, loans to senior executives, and donations to charitable organizations.

The Compliance Division focused its work on strengthening the automated monitoring process introduced the previous year, expanding the coverage through the incorporation of new risk scenarios, products and types of customers under analysis. It also provided training for the entire corporation's staff, focused on various aspects like the launching of a new lessons in the prevention of asset laundering through e-learning methods, an induction program for new recruits and on-site training at branches throughout the country, segmenting its content according to that required by each Bank team.

As a measure for preventing asset laundering and in line with current regulations, the division worked in the last quarter of the year in updating customer information in order to comply with the policies of knowing your customer. The commercial and operational areas participated in this task.

## Directors' Expenses and Remuneration

The total amount paid as directors' remuneration during 2008 amounted to Ch\$2,243 million, as compensation for their services and attendance at meetings. No provision has been established for pensions, retirement or other similar benefits for the Board members or other senior executives. The law makes no provision for the need to have a Remunerations Committee, but the Directors' Committee should approve the remuneration and compensation plans of managers and senior executives.

Further details are provided in Note 33 to our financial statements for 2008.

# OWNERSHIP OF BANCO DE CHILE

## Shareholders

At December 31, 2008, Banco de Chile has 14,480 shareholders. LQ Inversiones Financieras S.A. (LQIF), a subsidiary of Quiñenco S.A., and Citigroup Inc., directly control 32.11% of the shares of Banco de Chile and, indirectly through Sociedad Matriz Banco de Chile S.A., or SM-Chile S.A. (hereinafter "SM-Chile"), a further 29.57%. In all, LQ Inversiones Financieras S.A. controls 61.68% and has an equal share of the voting rights of the company

Under the strategic association agreement between Quiñenco and Citigroup Inc. for the merger by incorporation of Citibank Chile into Banco de Chile, Citigroup Inc. took a shareholding in LQIF, initially with a 32.96% holding and with the option to later increase this until acquiring 50% of LQIF. An essential element of this association is the agreement that Quiñenco will continue at all times to be the controller of LQIF and the companies that directly or indirectly control LQIF.

SM-Chile is an open corporation created in 1996 to resolve the Bank's obligation with the Central Bank of Chile deriving from the economic crisis of 1982-1983. Its shares are traded on the Chilean stock exchanges and the company is governed by the provisions of Law 19,396 and is subject to the regulatory authority of the Superintendency of Banks and Financial Institutions. It has a total of 20,471 shareholders at December 31, 2008 who directly exercise the rights to speak and vote in Banco de Chile held by the company and its subsidiary Sociedad Administradora de la Obligación Subordinada SAOS S.A.

In November 1996, the shareholders approved a restructuring by which Banco de Chile became SM-Chile, parent company. In turn, SM-Chile created a new wholly-owned subsidiary called Banco de Chile to which all its assets and liabilities were transferred, except for the outstanding obligation with the Central Bank. SM-Chile also created the closely-held company Sociedad Administradora de la Obligación Subordinada SAOS S.A. (hereinafter "SAOS"), a second wholly-owned subsidiary which, following a prior agreement with the Central Bank of Chile, assumed a new obligation in favour of the Central Bank in full replacement of the subordinated obligation. This new debt with the Central Bank of Chile, the exclusive responsibility of SAOS, equalled the unpaid amount of principal corresponding to the former subordinated obligation and established a 40 year repayment term in annual instalments. The debt is subject to an annual interest rate of 5% and is denominated in Unidades de Fomento.

SAOS received from SM-Chile a percentage of its shares as collateral which, at December 31, 2008 amounted to 35.35% of the total share capital of the Bank. The dividends received on this collateral represent the sole source of SAOS's income and have to be fully applied to repaying this obligation.

Should the corresponding dividends be insufficient to cover the established annual instalment, SAOS may maintain an accumulated deficit balance with the Central Bank which it promises to repay with future dividends. Should the deficit balance exceed an amount equivalent to 20% of the Capital and Reserves of Banco de Chile, the Central Bank may require SAOS to sell a number of shares sufficient to repay the whole accumulated deficit. At December 31, 2008, SAOS has an accumulated surplus with the Central Bank of Ch\$55,831 million.

## Principal Shareholders as of December 31, 2008

	Share holding
Sociedad Administradora de la Obligación Subordinada SAOS S.A.	35.35%
LQ Inversiones Financieras S.A.	32.11%
Sociedad Matriz del Banco de Chile S.A. (SM-Chile S.A.)	15.01%
Ever 1 BAE S.A.	2.14%
Ever Chile S.A.	2.14%
Inversiones Aspen Ltda.	1.48%
Banchile Corredores de Bolsa S.A.	1.33%
AFP Provida S.A. for the pensions fund	0.95%
J.P. Morgan Chase Bank	0.83%
Inversiones Avenida Borgoño Limitada	0.61%
Banco de Chile for account of third parties Chapter XIV S.A.	0.56%
AFP Habitat S.A. for the pensions fund	0.45%
Administradora de Fondos de Pensiones Capital S.A.	0.38%
Sub total	93.34%
Other shareholders	6.66%
Total	100.00%

## Minority Holding

As of December 31, 2008, the minority shareholders of Banco de Chile directly control 11.78% of the Bank's shares. For their part, the minority shareholders of SM-Chile control an additional 20.79% of the Bank's shares, thus giving them a total of 32.57% of the voting rights. These shareholders include the Chilean pension funds (AFPs), with 2.54% of the voting rights, and there is also 0.83% held in the form of ADS (American Depositary Shares).

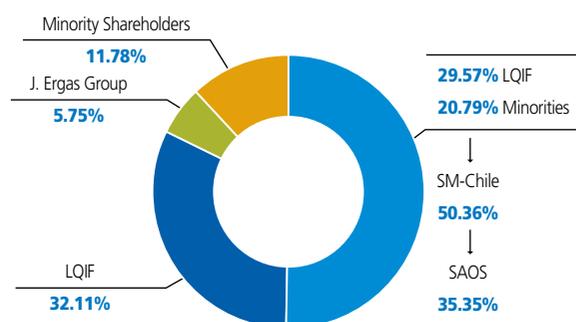
## Dividends

The Bank's Ordinary Shareholders Meeting held on March 27, 2008 approved a dividend distribution of Ch\$3.359690 per share against the net income for 2007, involving a sum of Ch\$242,287,683,620 which represents 100% of the net income. This dividend was paid from the same day as the meeting.

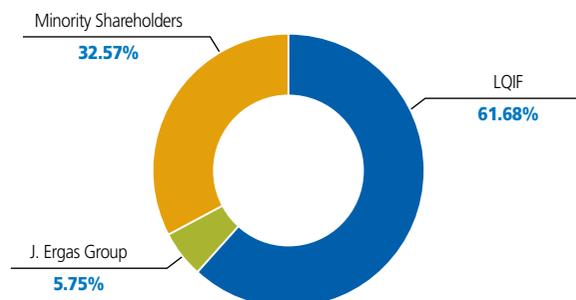
The ordinary shareholders meeting to be held during the first quarter of 2009 will decide on the dividend to be distributed to shareholders of Banco de Chile.

35.353% of the dividends distributed by the Bank relate to shares held by SAOS. By adding to this a 0.702% of the dividends received by SM Chile and which, in accordance with its commitments, must be transferred annually to SAOS, the latter directly and indirectly has rights to 36.055% of the total dividends distributed.

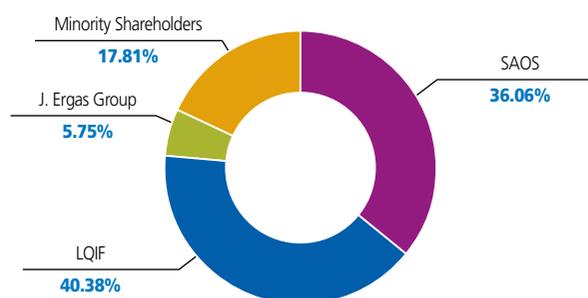
### Share Ownership



### Voting Rights



### Dividend Rights



(Percentages over the total number of shares of Banco de Chile, amounting to 80,879,895,984. Figures as of December 31, 2008).

# BANCO DE CHILE SHARE

The share of Banco de Chile are traded on the local stock exchanges and on those of New York, London and Madrid (on its Latibex platform). On the first two foreign exchanges, these are traded in the form of ADS (American Depositary Shares) where each ADS equates to 600 shares of Banco de Chile.

	Chile	New York	Madrid	London
Traded Security	Shares	ADS	Shares	ADS
<b>Ticker</b>	<b>Chile Chile-S</b>	<b>BCH</b>	<b>XBCH</b>	<b>BODD</b>
Depository / Registered Entity	-	JP Morgan Chase Bank	Santander Central Hispano Investment S.A.	JP Morgan Chase Bank / Deutsche Bank

The stock markets were severely affected in 2008 by the international financial crisis that spread toward the end of 2007, caused by the sub-prime mortgage problem in the United States. This also impacted the Chilean stock market, although to a lesser degree the bank shares which suffered a smaller descent than that of the Selective Stock Price Index (IPSA).

The Bank's share showed a better yield than its peer group at the local and international markets thanks to its successful commercial and financial management, a conservative risk policy, the processes optimization following the merger with Citibank Chile and proper communications with its shareholders and investors through transparent and timely information. While the market price of Banco de Chile shares suffered a fall of 17% in the local market in 2008, this was less than that of the main stock index (IPSA), which declined by 22% compared to 2007.

During the year, the equivalent value of Banco de Chile shares traded on foreign exchanges represented 24% of the total value traded. Particularly, the total volume traded on foreign stock exchanges has increased by a compound annual rate of 19% over the last 5 years.

Nominal Prices	Share	ADS
At beginning of the year	Ch\$39.0	<b>US\$ 47.13</b>
At end of the year	Ch\$33.4	<b>US\$ 32.19</b>
Closing price (03/19/2008)	Ch\$42.5	<b>US\$ 54.06</b>
Ex-dividend price (03/20/2008)	Ch\$39.5	<b>US\$ 52.48</b>
Highest price in year	Ch\$44.0	<b>US\$ 59.99</b>
Lowest price in year	Ch\$25.5	<b>US\$ 22.00</b>

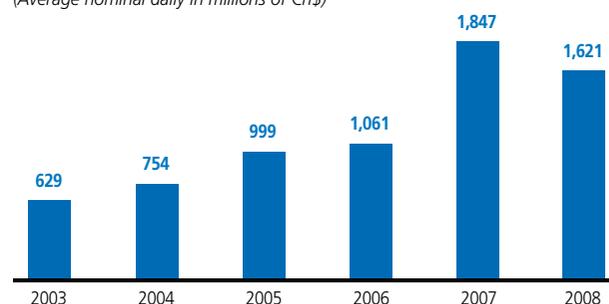
## Behavior of the Banco de Chile Share in 2008

At the end of 2008, the Banco de Chile share price was Ch\$33.44, which corresponds to a Company's market value of Ch\$2,705 billion on that date. The year-end share price shows a fall of 14.4% compared to that at the start of the year and a recovery of 31% compared to its lowest price during the year. These variations occurred in a high volatility environment on the stock markets. The maximum share price reached during the year was Ch\$44.0, 72% higher than the minimum price in the same year. Banco de Chile's ADR price reached a peak of US\$ 59.99 and closed the year showing a 31.7% reduction during the year.

The volume traded during 2008 on the Santiago Stock Exchange and Chilean Electronic Exchange showed a nominal decrease of 14% in the average daily trading volume. On the New York Stock Exchange (NYSE), the average daily volume traded in Banco de Chile ADSs suffered a smaller decline of 4.7%. During the year, the average daily volume traded on all stock exchanges was the equivalent of Ch\$1,621 million, a nominal decrease of 12% compared to the average daily volume traded in 2007.

### Daily Volume Traded (Banco de Chile Share + ADS)

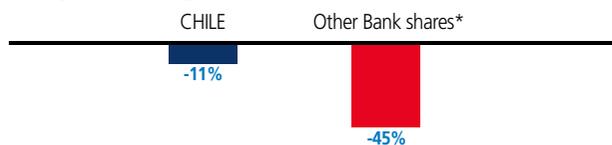
(Average nominal daily in millions of Ch\$)



Regarding the local liquidity in the Bank's shares, it is important to note that in comparing the daily amount traded of the Banco de Chile share with other banks traded on the Santiago Stock Exchange, the Bank's share is that which declined the least during 2008. The average daily volume traded in the share of Banco de Chile descended by 11% in 2008 compared to 2007, against a weighted average of 45% decline for the other banks shares daily traded volume.

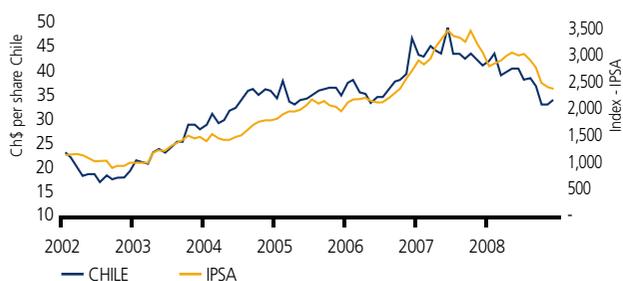
#### Changes in Average Daily Volume Traded (2008/2007)

(Santiago Stock Exchange)

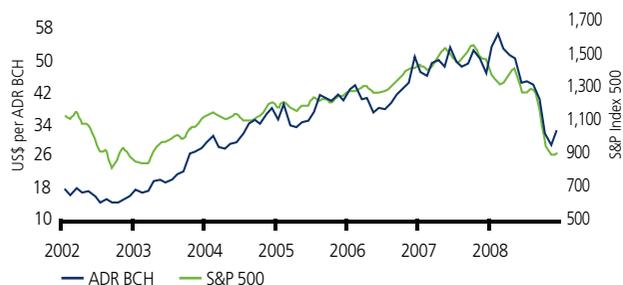


\*Other bank shares weighted average: Santander, BCI and Corpbanca.

#### CHILE Share Price vs IPSA



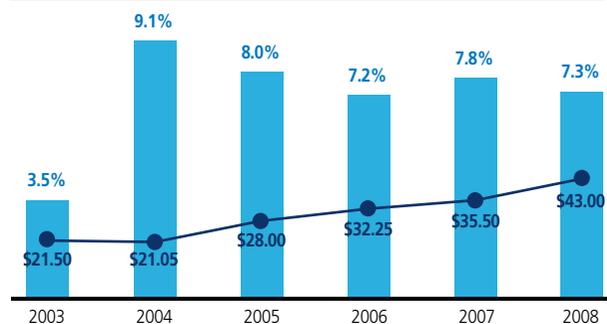
#### ADR Price vs S&P 500



#### Dividend and return for shareholders

The Shareholders' Meeting of Banco de Chile held on March 27, 2008 approved the net income distribution for the year 2007, with a dividend payment of Ch\$3.359690 per share.

#### Dividend yields



The dividend yield for each year (blue bar), takes into account the net income for the year and the ex-dividend share price of the previous year (black dot).

The dividend yield was therefore a real 7.3%, considering the ex-dividend share price for 2007, a year in which the net income for distribution in 2008 was generated. The Bank therefore maintains the highest dividend yield in the financial system and one of the highest of companies listed on the Santiago Stock Exchange.

The Share Price/Book Value ratio at the end of 2008 was 2.24 times and the Price/Earnings ratio closed the year at 9.93 times.

# BANCO DE CHILE SHARES

## Capital Increase

As a result of the merger with Citibank Chile, at the beginning of 2008 Banco de Chile issued 8.443.861.140 common shares of no par value, of the series "Chile-S". In addition, a total of 120,000,000 shares were subscribed and paid following the sale by SAOS of an equal number of options for subscribing shares, corresponding to the capital increase approved by the Extraordinary Shareholders Meeting held on May 17, 2007, for an amount of Ch\$110,000 million, through the issue of 2,516,010,979 shares for payment.

On April 30, 2008, the capital increase process was completed with the subscription and payment for 319,951,628 shares through an auction on the Santiago Stock Exchange.

Consequently, the share capital of Banco de Chile as of December 31, 2008 is distributed into 80,879,895,984 nominative shares.

## Share Capital and Capital Adequacy Requirement

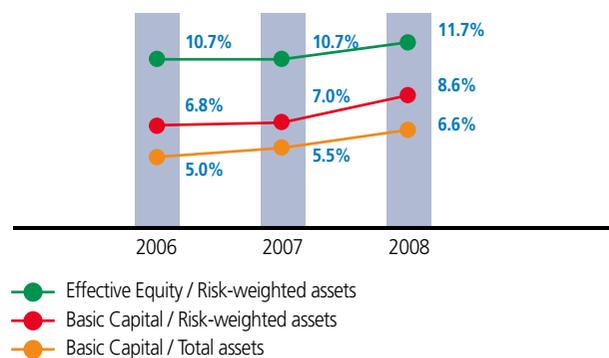
The paid capital as of December 31, 2008 is divided into 80,879,895,984 nominative shares of no par value.

<i>(Millions of Ch\$)</i>	
Paid-in Capital	<b>1,106,491</b>
Reserves	<b>118,170</b>
Other Equity Accounts	<b>(16,660)</b>
<b>Total Capital and Reserves</b>	<b>1,208,001</b>

The Basic Capital (Capital + Reserves) to Total Assets ratio at December 31, 2008 was 6.6%, above the 3% minimum required by the Banking Law. The same law also establishes a minimum Effective Equity to Risk-Weighted Assets ratio of 8%.

The merger of Banco de Chile and Banco de A. Edwards on January 1, 2002 produced a loan market share of approximately 20%, the Superintendency of Banks and Financial Institutions, in accordance with article 35 bis of the General Banking Law, established that the merged bank should maintain an Effective Equity to Risk-Weighted Assets ratio of at least 10%. This ratio is equal to that required by same Superintendency as one of the requirements for the regulator to classify a financial institution at Level A for Solvency. This ratio was 11.7% at the end of 2008 for Banco de Chile.

## Capitalization Adequacy



## PER SHARE FIGURES

<i>Real values as of December 31, 2008</i>	2008	2007	2006
<i>Gross margin (Ch\$)</i>	<b>13.57</b>	10.46	9.50
<i>Income before taxes (Ch\$)</i>	<b>3.84</b>	4.07	3.72
<i>Net Income (Ch\$)</i>	<b>3.37</b>	3.66	3.31
<i>Price / Earnings (times)</i>	<b>9.93</b>	11.98	16.23
<i>Price / Book Value (times)</i>	<b>2.24</b>	3.59	4.96
<i>Dividend distribution</i> <i>(% of net income of previous year)</i>	<b>100%</b>	70% / 30% cash / shares free of payment	70% / 30% cash / shares free of payment
<i>Total Number of Shares</i> <i>as of December 31 each year</i>	<b>80,879,895,984</b>	71,996,083,216	69,037,564,665

## ***FLEXIBILITY***

*IN A CONSTANTLY-CHANGING  
WORLD, THE ABILITY TO  
ADDAPT TO THE ENVIRONMENT  
IS ESSENTIAL*



The background of the slide is a solid blue color with a subtle gradient. On the left side, there is a faint, light blue outline of a pair of glasses. At the bottom left, a small portion of a hand holding a pen is visible. On the right side, there is a vertical teal-colored bar. The text is centered in a dark blue rounded rectangle.

*ECONOMIC AND  
FINANCIAL ENVIRONMENT*  
Banco de Chile

## *INTERNATIONAL OUTLOOK*

The global economy in 2008 will have expanded by close to 3.7%, according to the International Monetary Fund. This represents a substantial slowing down from the average of 5.1% in the 2004-2007 period. This reduced growth is mainly explained by the weak momentum shown by the developed countries, most of which began to enter recession in the second quarter of the year as a result of the financial crisis impact on their real economies.

While the emerging economies as a group will also show a deceleration, the growth rate was quite higher than the developed nations, exceeding 6%. This result is basically due to the strong growth shown by the Asian economies, mainly China and India, which will show expansion rates of over 9% and 7% respectively, also contributing to partially offsetting the slackness shown by most developed countries.

It is important to note the deep and unexpected changes caused by the global financial crisis during 2008, particularly in the last four months. At the beginning of the period, banks that had been weakened by large losses from badly-evaluated housing loans and the devaluation of their mortgage collateral could still attract new investors in an effort to reconstruct their capital bases. However, in September, following the bankruptcy of the investment bank Lehman Brothers and the later absorption of large investment banks by commercial banks and financial groups, the American and European authorities took extraordinary actions to contain the pessimism, mistrust and critics of the regulatory and supervisory mechanisms. The mentioned actions included large liquidity injections, coordinated reductions in interest rates, large financial institutions acquisition, increases in deposit guarantees, and plans for acquiring risky financial assets principally through the Toxic Assets Recovery Program (TARP).

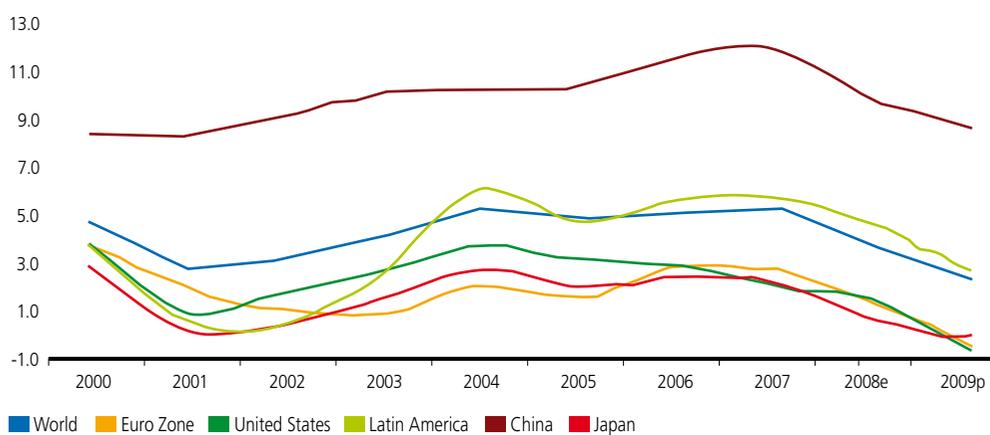
A few months later, a gradual moderation of market tensions could be felt, but the prolonged de-leveraging process under way will have significant real effects in the world, which will deepen the deceleration that the developed economies have already been showing in previous months.

For these reasons, in November and December 2008, various international organisms, including the International Monetary Fund, adjusted downward their global growth forecasts for 2009, to figures around 2%.

These revisions vary considerable from region to region. The most affected countries include exporters of raw materials and those with liquidity and external financing restrictions. The reduction in the projections is much less for East Asian nations, including China, mainly due to the large international reserves they hold, the terms of trade that will benefit from lower raw material prices, and the initiation of more expansive macroeconomic policies.

#### Global and Main Economies GDP evolution

(% real change)



Source: World Economic Outlook. International Monetary Fund. November 2008.

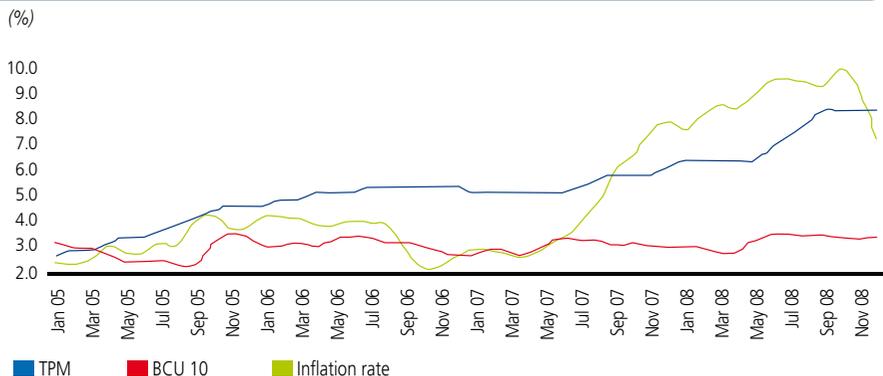
# ECONOMIC ENVIRONMENT

## THE CHILEAN ECONOMY

Chile also experienced a deceleration in 2008 due to the weaker dynamism of the global economy and adverse factors to production from the local energy crisis, the higher prices of productive inputs and the reduced productivity of the factors. The expansion estimated for 2008 is significantly less to 2007 (5.1%), with an important contribution from investment which, contrary to what happened in 2007, was the principal engine of the economy during 2008. The sharp depreciation of the peso against the dollar during most of the year, relatively low long-term interest rates and the development of mega-projects in productive sectors which currently have little spare productive capacity, such as mining and energy, will sustain the notable expansion in this area, of about 20% in real terms.

The growth in private spending, while above GDP, showed a considerable deceleration compared to the expansion of 2007 (7.7%), basically explained by the impact of high inflation, less borrowing capacity by individuals, increasing credit requirements and higher interest rates for the shorter terms. There was also a high deterioration in consumer expectations as a result of the financial crisis.

### Interest and Inflation rates



Source: Central Bank of Chile

One of the main difficulties faced by the Chilean economy was the high inflation rate during most of the year. While the prices of foods and fuels were reducing gradually compared to the sharp changes seen in 2007, the inflation rate ended at 7.1%, remaining for the second consecutive year at over the 3% target set by the Central Bank of Chile. The monetary authority therefore acted by raising the monetary interest rate on four occasions during the year, to set it at 8.25% in October.

The prospects for the Chilean economy in 2009 are less favorable than in previous years, considering that the adverse external scenario has caused an important fall in the terms of trade and will dampen the outstanding dynamism of foreign trade observed in recent years. Reduced credit capacity and the expected rise in local unemployment have led us to estimate a modest growth in economic activity for next year of around 2%, partly based on an expansion in fiscal spending of over 10%, supported by the 2009 budget, and the reactivation plan announced by the government of more than US\$4,000 million.

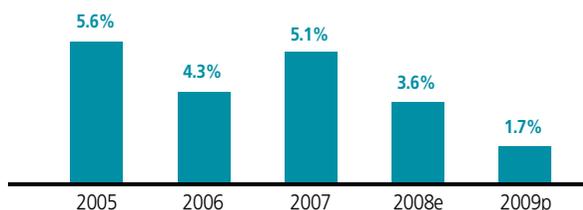
This fiscal plan seeks to stimulate employment and the economy through support directed to individuals, expansion of public investment, tax reductions and strengthening the access by small and medium enterprises to financing. The strategy will imply an effective fiscal deficit for 2009 of around 3% of GDP, although strict compliance with the structural balance rule will not be affected. Financing of the plan will come from the use of resources in the Economic and Social Stabilization Fund and the use of the powers to issue bonds authorized under the Budget Law 2009.

The deceleration and the adjustment in private spending in 2009 will reduce the present inflationary pressures, providing space for the Central Bank to quickly reduce the monetary policy rate during the year.

With respect to the labor market, no deterioration has yet been seen over and above its normal seasonality but a slowing down of employment growth is expected and thus deterioration in this market for the following months, which could translate into two-digit unemployment, rates by mid 2009.

### Gross Domestic Product Growth

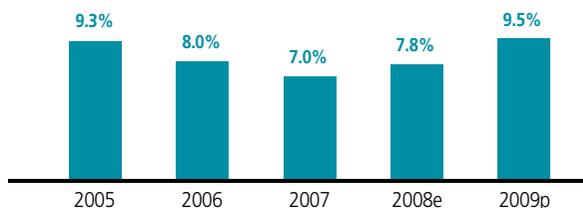
(12 months change)



Source: Central Bank of Chile. Banco de Chile Estimates & Projection.

### Unemployment Rate

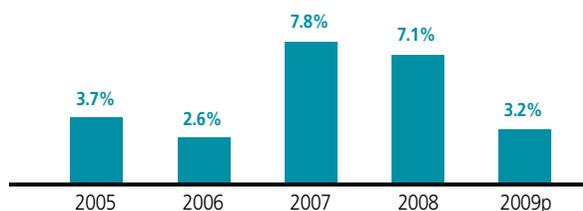
(Annual average)



Source: Central Bank of Chile. Banco de Chile Estimates & Projection.

### Annual Inflation Rate

(Dec-Dec)



Source: Central Bank of Chile. Banco de Chile Estimates & Projection.

## The Chilean Financial System in 2008

Chilean banking continues to be considered by various international analysts as one of the most prestigious in Latin America and even at the global level, mainly due to its financial soundness, the quality of its institutions, conservative risk policies, the high quality of supervision and regulation, and a very stable political and macroeconomic environment.

Such virtues, among other elements, enabled local banks to face the international financial crisis of 2008 well, particularly during the months of September and October, a period in which there were important liquidity restrictions internationally. The timely and suitable actions taken by the industry together with the government and the Central Bank, provided access by banks to funds from abroad at reasonable term and price, in a scenario of a deep dollar scarcity.

A few months later, local banks had normalized their liquidity situations, reflected in the declaration that there were no bids in the tenders for dollar swaps that the Central Bank had made available to the banks at the moments of highest tension. In November, the system even showed liquidity ratios better than those in the months prior to the crisis.

## Business Volumes

Despite the impact of the international financial crisis and the deceleration of the local economy, the aggregate growth figures for the banking industry at December 2008 had still not reflected a significant impact on the dynamism seen in recent years. The system's total loans amounted to Ch\$70,251 billion, showing a real growth of 11.0% compared to December 2007, an expansion less than the 12.9% recorded in the previous year. However, an analysis at the level of the main credit products leads to different conclusions. The expansion of loans to companies, which rose by 12.8% in real terms in 12 months, was partly based on the impact of the increase in the exchange rate on foreign trade financing, which showed an increase of 52.9% in the year.

A greater impact on the deceleration of economic activity was noted in consumer loans, with modest real growth of 0.8%, a figure that was below the figure of 7.4% for 2007, and very distant from the growth recorded in 2006 of 21.5%. This is explained by an environment characterized by very high interest rates, demand restrictions caused by expectations of a less favorable economic cycle, a higher level of household debts, and the increase in risk seen in the retail segment.

Housing loans also slowed down compared to 2007, due to reduced activity in the new homes market and higher interest rates. In particular, these credit products showed a real annual growth of 11.9%, lower than the 15.8% recorded the year before.

Regarding the sources of finance for the financial system, and which supported the expansion in total loans, notable were the deposits and other sight and time obligations which together financed 87% of the stock and 84% of the growth flow of all the financial system's loans. Time deposits and checking accounts showed real increases of 14.6% and 3.2% respectively in 2008.

Straight and subordinated bonds together expanded by 20.1% compared to 2007. The growing importance should be pointed out of bond issues on banks' funding structures, driven by still-attractive long-term rates, the solvency of its issuers and very deep markets. In fact, substantial issues of subordinated bonds, together with prudent earnings capitalization policies, have permitted the industry to sustain the growth in business volumes.

### Chilean Financial System: Loans

(Figures in millions of pesos of December 2008, except for percentages)

	Dec-08	Dec-07	Var.Real
<b>Commercial Loans</b>	<b>45,291,926</b>	<b>40,138,546</b>	<b>12.8%</b>
Commercial Loans <sup>1</sup>	32,742,079	30,879,028	6.0%
Foreign trade	7,149,305	4,674,703	62.9%
Factoring	1,775,327	1,327,071	33.8%
Leasing	3,625,215	3,257,744	11.3%
<b>Housing loans</b>	<b>16,370,173</b>	<b>14,626,604</b>	<b>11.9%</b>
<b>Consumer loans</b>	<b>8,589,040</b>	<b>8,517,611</b>	<b>0.8%</b>
<b>Total loans</b>	<b>70,251,139</b>	<b>63,282,761</b>	<b>11.0%</b>

1) Includes checking account debtors and other credits and accounts receivable  
Source: Superintendency of Banks and Financial Institutions.

# CHILEAN FINANCIAL SYSTEM

## Results

During 2008, while the local banking system maintained an important dynamism at the business volume level, the results for the year were less favorable, primarily as a consequence of the increase in the charge for allowances for credit risk. Consolidated net income showed a real contraction of 5.6%, very different from the 11.0% growth in total loans. In terms of profitability, the return on average capital and reserves of the industry declined from 17.5% in 2007 to 14.8% in 2008.

Starting in January 2008, and in the context of the regulatory changes toward international accounting standards (IFRS), the public information published by the Superintendency of Banks and Financial Institutions, in addition to reclassifying different items in the balance sheet and results, refers to the consolidated financial statements, effects that distort the comparison with respect to the results of the industry based on unconsolidated financial statements reported until 2007, particularly in the items of operating revenues and operating expenses.

The total of operating revenues showed a real increase of 28.9%, mainly explained by: the increase in business volumes, the larger base of net fees compared to 2007 associated with the effect of consolidation commented on, the greater benefits for management of currency mismatches (UF/Ch\$) in a scenario of high inflation rates, and the positive effect of the higher level of nominal rates which improve the return on interest-free liabilities and equity, the latter compensated by the corresponding higher charge for monetary correction, an item that increased by a real 53.8% over 2007. On the other hand, operating expenses showed an increase of 25.9%, an expansion which being less than that recorded for operating revenues, permitted an improvement in the industry's efficiency ratio from 51.1% in 2007 to 49.9% in 2008, continuing the tendency and the effort for achieving higher levels of productivity and operational efficiency.

Consistent with the expected effects of the deceleration in economic activity and reduced credit availability, the charge for allowances for credit risk showed a real increase of 59.6% compared to 2007, which was reflected also in the credit risk allowances to average loans ratio which rose from 1.0% in 2007 to 1.4% in 2008, continuing the upward trend shown by this ratio since 2005, a year when it reached 0.6%.

### Chilean Financial System: Results

(Figures in millions of pesos of December 2008, except for percentages)

	2008	2007	Var.Real
<b>Total operating revenues</b>	<b>5,058,548</b>	<b>3,923,469</b>	<b>28.9%</b>
<b>Allowances for credit risk</b>	<b>-920,444</b>	<b>-576,827</b>	<b>59.6%</b>
<b>Net operating revenue</b>	<b>4,138,104</b>	<b>3,346,642</b>	<b>23.6%</b>
<b>Operating expenses</b>	<b>-2,522,903</b>	<b>-2,003,426</b>	<b>25.9%</b>
Staff remuneration & expenses	-1,258,806	-988,109	27.4%
Administrative expenses	-827,406	-650,059	27.3%
Depreciation and amortization	-233,175	-152,457	52.9%
Impairments	-378	0	-
Other operating expenses	-203,138	-212,801	-4.5%
<b>Operating income</b>	<b>1,615,201</b>	<b>1,343,216</b>	<b>20.2%</b>
Results of investments in companies	7,163	158,704	-95.5%
Price-level restatement	-389,768	-253,432	53.8%
<b>Income before income tax</b>	<b>1,232,596</b>	<b>1,248,488</b>	<b>-1.3%</b>
Income tax	-239,466	-196,546	21.8%
<b>Consolidated net income for the year</b>	<b>993,130</b>	<b>1,051,942</b>	<b>-5.6%</b>

Source: Superintendency of Banks and Financial Institutions.

However, the allowances to loans ratio showed a moderate rise to a level of 1.8%, which would reflect the relatively higher growth of commercial loans and their higher proportion of the system's total loans. In commercial loans, and according to the available information, this ratio increased from 1.10% in 2007 to 1.46% in 2008 while in consumer products, it rose from 5.0% to 5.7% in the same periods.

#### Chilean Financial System: Indicators

	2008	2007
<b>Profitability</b>		
Operating revenues / Average productive assets	5.9%	6.7%
Net operating revenues / Average productive assets	5.0%	5.5%
Net income / Average capital & reserves (ROAC)	17.9%	15.9%
Net income / Average assets (ROAA)	1.3%	1.3%
<b>Efficiency</b>		
Operating expenses / Operating revenues	51.1%	49.1%
Operating expenses / Average productive assets	3.0%	3.3%
<b>Asset quality</b>		
Allowances for credit risk / Average loans	1.0%	1.4%
Allowances made / Loans	1.7%	1.7%
<b>Capital adequacy</b>		
Effective equity / Risk weighted assets	12.2%	12.7%*
Basic capital / Total assets	6.7%	6.5%*

\*At November 2008

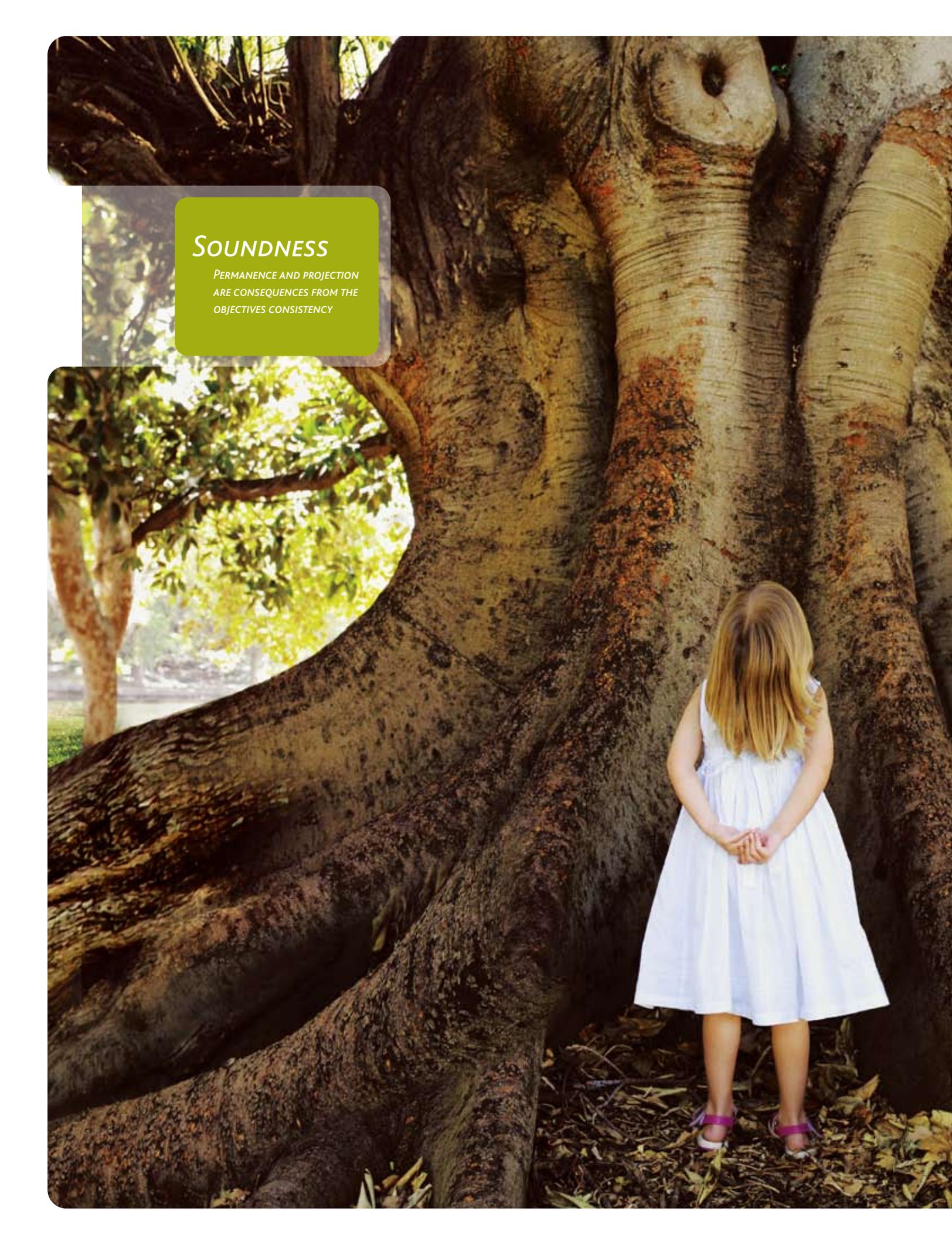
Source: Superintendency of Banks and Financial Institutions.

Finally, the capital adequacy ratios of the financial system, despite the important expansion in business volumes, remain steady showing comfortable margins above the regulatory limits. The Effective equity to Risk-weighted assets ratio was 12.1% at December 2008, compared to 12.2% in December 2007, while the Basic capital to Consolidated total assets ratio remained unchanged at 6.7% in both years.

#### Prospects

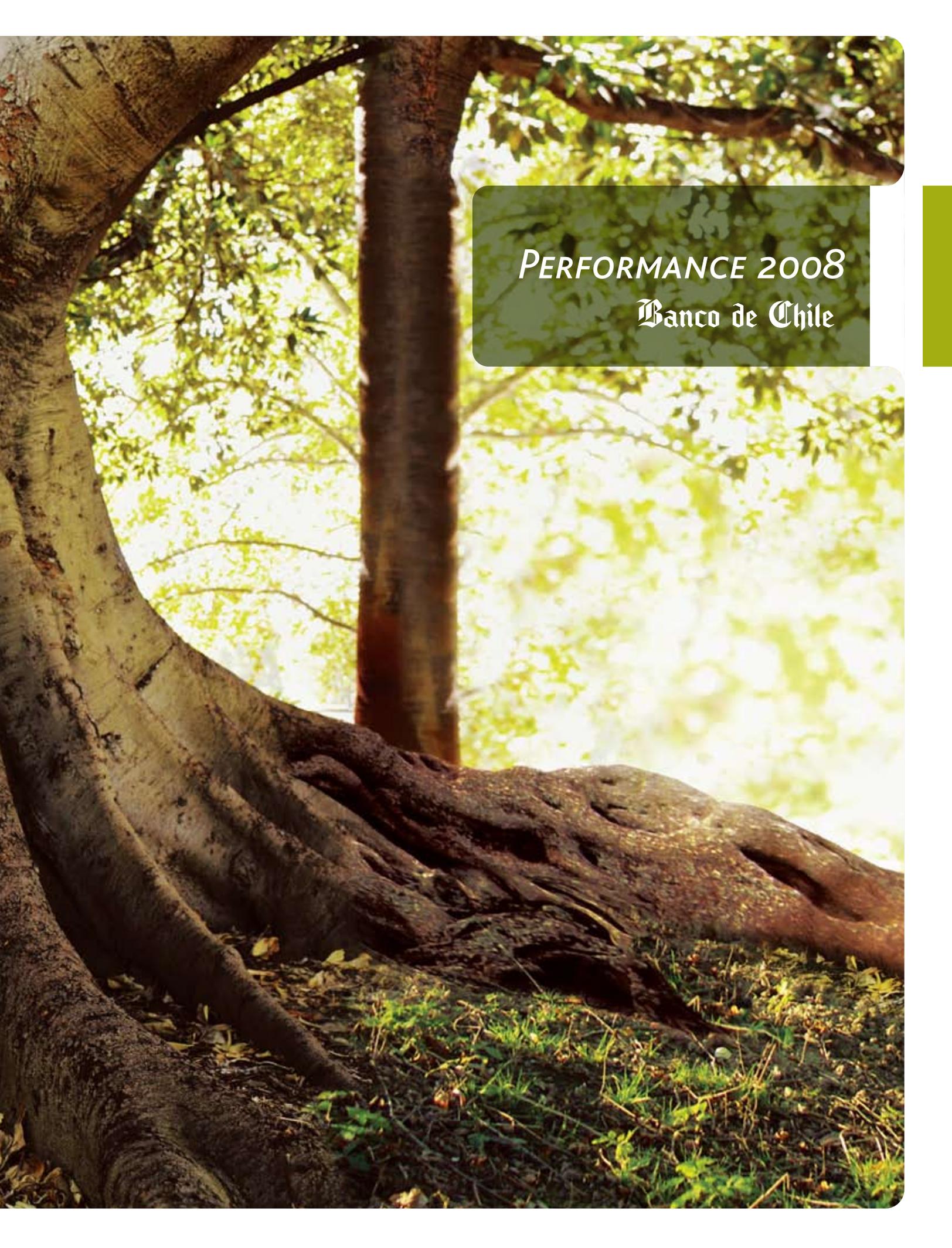
The economic scenario for 2009 is consistent with a less dynamic environment for the Chilean banking system. It is estimated that total loans will expand by close to GDP growth in a scenario of deterioration in the principal macroeconomic variables and an important investment adjustment. Higher unemployment rates and lower levels of activity will affect expansion of the main credit products, particularly commercial and housing loans. Consumer loans will maintain the nil growth seen in 2008, consolidating the adjustment begun more than a year ago already.

Despite this less auspicious scenario, the country's reliable economic and institution bases, the adequate levels of bank solvency and risk management, and the positive impact of the various governmental initiatives and plans for an economic boost, give us confidence in the capacity of the financial industry to continue contributing to the country's economic development.

A young girl with long blonde hair, wearing a white sleeveless dress and purple sandals, stands with her back to the camera. She is positioned in front of a massive, ancient tree trunk with thick, gnarled bark. The tree's trunk is the central focus, showing a large hollowed-out section. The ground is covered in dry leaves and twigs. In the background, other trees and a glimpse of a building are visible through the foliage.

## SOUNDNESS

*PERMANENCE AND PROJECTION  
ARE CONSEQUENCES FROM THE  
OBJECTIVES CONSISTENCY*



*PERFORMANCE 2008*  
Banco de Chile

# PERFORMANCE REPORT BY THE CHIEF EXECUTIVE OFFICER



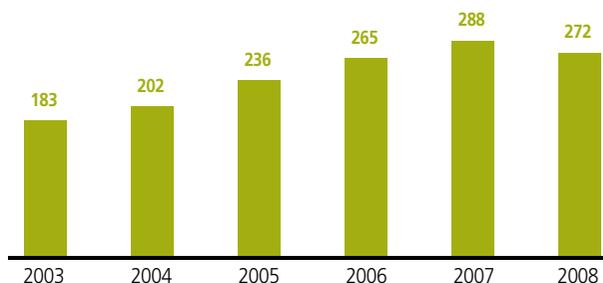
**Dear shareholders,  
customers and staff:**

I am very happy to present to you this Annual Report to show you the important achievements accomplished by Banco de Chile during 2008 and the main challenges and tasks we will face starting 2009. This year, we consolidated the merger of our business with that of Citibank Chile and simultaneously achieved an excellent level of profit, equivalent to Ch\$272 billion and a return on average capital and reserves of 22.6%. The net income attained by our Bank in turn equates to over a quarter of the total net income of the whole Chilean financial system, distinguishing ourselves yet again as one of the most profitable institutions in the industry.

Before summarizing the key elements of the financial and commercial performance for the year, I would like to share with you my great satisfaction for the work accomplished in the merger process. Banco de Chile was integrated with one of the largest financial services network in the world, obtaining access to state-of-the-art technologies and a larger and broad range of products and international services. The revenue synergies contemplated at the project commencement are supported by collaboration and business-sharing agreements between Banco de Chile and Citigroup. We have also been capable of obtaining previously-estimated cost synergies, thus strengthening the corporation's value and its future business potential.

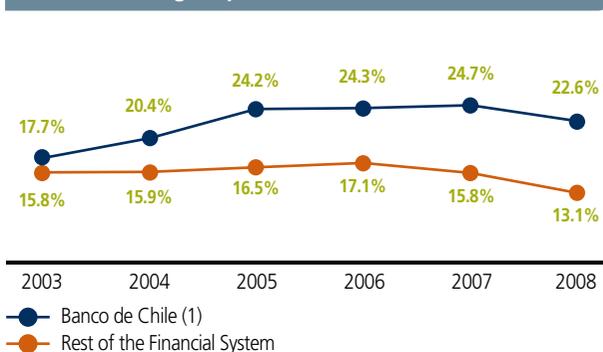
## Net Income Banco de Chile (1)

(Billions Ch\$ of December 2008)



(1) For periods prior to 2008, the information includes the results of Citibank Chile.

## Return on Average Capital and Reserves



(1) For periods prior to 2008, the information includes the operations and results of Citibank Chile.

During 2008, we maintained our management focus and efforts on four strategic pillars that sustain our customer-centric mission and business vision: profitable growth, operational efficiency, service quality and human resources management oriented to the integral development of our staff.

In the area of a **profitable growth** strategy, we concentrated on those businesses offering significant contributions and limited risks, retaining and strengthening relations with our customers. The Private and Preferential Banking segments were reinforced, introducing an exclusive service model for every one of these groups of customers. In the last quarter of the year, the final integration of the networks of Financiera Atlas and CrediChile was completed under the Banco CrediChile brand, which currently has a strong positioning in the consumer banking segments.

During 2008, besides integrating into the Bank's network the 20 former offices of Citibank Chile and the 89 branches and auxiliary offices of Atlas, we opened three new branches of Banco de Chile and 10 of CrediChile. Thus, following the closing of offices due to the merger of Atlas and CrediChile, we have a network of 207 Banco de Chile offices, 39 Edwards Citi branches and 172 Banco CrediChile offices.

In this same area, I should also like to highlight the strengthening of the treasury business, particularly that related to sales and structuring, whose revenues in 2008 doubled compared to both banks together before the merger. Investment banking and capital markets business, carried out by the subsidiary Asesoría Financiera, increased substantially their contribution to the Bank's operating revenues. The first-rate corporate image resulting from the combination of the "Banchile" and "Citi Global Markets" images, together with the large customer base and the wide range of local and international products and services offered by a team of highly-qualified professionals, enabled this subsidiary to participate in large-scale business transactions during 2008.

# PERFORMANCE REPORT BY THE CHIEF EXECUTIVE OFFICER

## Operating Revenues (1)

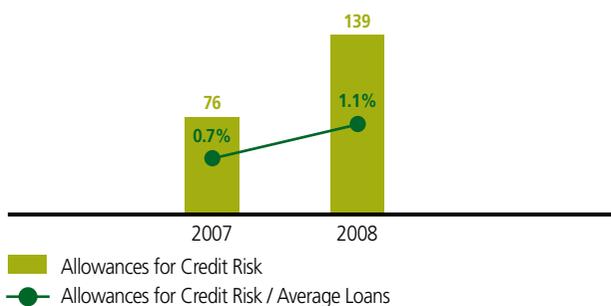
(Billions Ch\$ of December 2008)



(1) Includes operations and results of Citibank Chile in 2007.  
 (\*) Net of monetary correction.

## Allowances for Credit Risk\*

(Billions Ch\$ of December 2008)



(\*) Includes operations and results of Citibank Chile in 2007.

These initiatives, among many others, together with an outstanding management of financial positions in a scenario of higher inflation rates and of interest and exchange rate volatility, enabled the Bank to increase its revenue generation significantly. This is reflected in the ratio of operating revenue (net of monetary correction) to average productive assets, which rose from 6.5% in 2007, considering both banks, to 7.1% in 2008. It is fair to also point out that this improvement was positively affected by non-recurring revenue in 2008 from the sale of the former foreign branches, which explains 35% of the improvement over 2007.

In terms of business volumes, our loan portfolio showed a real increase of 8.1% in twelve months, totaling Ch\$13,649 billion and accounting for 19.4% of all the financial system's loans. This expansion was mainly based on commercial loans, especially in foreign trade products. On the other hand, consumer loans remained practically unchanged in real terms compared to 2007, consistent with the decelerating trend in this product that began in the financial system that year, with the gradual increase in the risk profile of the mass and retail segments, and with the Banco de Chile's prudent risk policy characteristic.

In this context, I would like to stress the Bank's favorable competitive position in terms of risk and asset quality. While our risk allowances to average loans ratio augmented to 1.1%, we keep a respectable distance with respect to the 1.4% average for the financial system in 2008. Furthermore, our operating revenues net of charges for risk allowances and as a proportion of assets favorably compares with the average of the financial system and of our most important competitors.

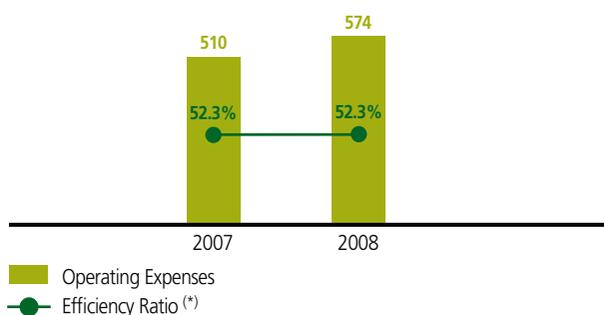
In addition, our allowances to past-due loans ratio is 277%, significantly higher than the financial system average of 182%. This confirms the satisfactory balance between risk and return of the Bank's credit portfolio, a characteristic that is a strategic asset and competitive advantage of great value, especially in less favorable macroeconomic scenarios as expected for 2009.

With respect to the second strategic pillar defined as **efficiency**, we continued during the year with a constant search for higher levels of productivity and control of operating expenses. We managed to capture an important part of the synergies related to the merger but their impact in 2008 was offset by non-recurring expenses associated with the same process, principally referring to severance payments and technological developments required for the integration with Citibank Chile. We have also worked intensively on the development of simpler and controllable operating processes like more modern and secure platforms that provide us with faster response times and greater productivity. We are conscious of the fact that with respect to expenses, productivity and efficiency, there are relevant improvements still to be accomplished which should be reflected in the results of the next years.

Despite the extraordinary expenses incurred during the year, our efficiency ratio was maintained compared to that of the combination of Banco de Chile and Citibank Chile in 2007. It should be pointed out that taking out both the non-recurring revenues and expenses; the ratio reaches a level close to 48% which represents important progress in one of the vital objectives and focuses of our management.

#### Operating Expenses (1)

(Billions Ch\$ of December 2008)



(1) includes operations and results of Citibank Chile in 2007.

(\*) Operating expenses / Operating revenues .

# PERFORMANCE REPORT BY THE CHIEF EXECUTIVE OFFICER

Undoubtedly, one of the greatest challenges we had to undertake during the year was maintaining our **service quality** standards, especially during the first quarter of the year. However, the initial efforts in the stabilization of the systems, plus the implementation of complementary projects in this matter, have borne fruit. The reduction in the number of customer incidents showed, through customer surveys, a gradual and sustained improvement in their global perception, which has been reflected in subsequent higher levels of loyalty and retention. We now have a better quality and effective customer communications platform and have finalized the redistribution of portfolios between mid to large corporations account executives which has permitted a greater specialization in attending our customers. We implemented various improvements to our internet channel in 2008 and in those business units that needed to expand their information-processing capacity, thus permitting the Bank to handle larger business volumes and improve customer response times

Another initiative of relevance performed during the year within the area of service quality was the "Semilla" project, whose objective is to strengthen integrally the service quality provided to customers through a plan for continuous improvement. As part of this program, we have defined the priority focuses oriented to enhance the processes that directly affect the customer which in turn will be a fundamental part of our management next year. We identified critical conducts relevant to the customers of each business unit, developing a service protocol for each customer group. Training and motivational programs were also executed to encourage compliance with the improvement plans; these included 70 branches, the call center and the operating areas.

I would also like to accentuate the progress in the first stages of the "Rentas Altas" project, a new differentiated service model focused on individuals with high incomes or capital. Through a renewed value proposal, with emphasis on a service of excellence, we aspire to increase the permanence of customers and strengthen business growth in this segment. With this objective, the Bank has furnished exclusive, spacious, reserved and specially-designed attention areas in certain branches within our network.

With respect to management in the area of **human resources**, we began the year with the challenge of building a new organizational culture that reflects the best of both institutions. We therefore put in place an "integration plan" in which over 4,200 people took part in various activities oriented to strengthening work teams, which are currently the protagonists of a new institutional identity which, no doubt, constitutes an additional source of value for the corporation. The surveys and follow-ups made with respect to the labor climate confirm the progress in this matter and I am proud of the spirit and professional quality of this great human team.

At the beginning of the merger process, a severance program was implemented for staff members who had to leave the institution. At the same time, we launched a communicational plan designed to create confidence and team spirit. In the operational area, we made the adjustments required to the personnel management policies and procedures, which included a revision and standardization of jobs, salaries and compensation systems. Collective negotiation processes and agreements were successfully completed with three unions representing more than 4,000 employees, all conducted in an atmosphere of good understanding and achieving agreements convenient for all parties, which were then extended to the whole organization. Collective agreements were also signed in the subsidiaries Socofin and Promarket.

We will continue to make the efforts required to remain as one of the most respected companies in the labor sphere, developing and cultivating one of the Bank's primary assets: a team of excellence, highly committed with our mission and institutional values.

I wish to close by referring briefly to the economic contingency and the actions we have taken to face this complex economic scenario. Without any doubt, the global financial industry has changed radically, not only in terms of its composition and the participation of the principal players and global financial groups, but also credit availability and the appreciation of the risks involved in financial intermediation and wealth management. In this sense, Chilean banking has once again demonstrated its strength and credibility, backed by responsible managements and the quality of its regulatory and supervisory system.

Banco de Chile has been working together with the monetary authority and in coordination with the rest of the Chilean banks. We have reinforced our links with the main correspondent banks, anticipating the possible impacts of this global financial crisis. The initiatives and actions implemented include the revision of liquidity standards and stress tests in different scenarios; a closer checking of the investment and credit portfolios; and the stringent monitoring of risk levels, especially in derivative instruments.

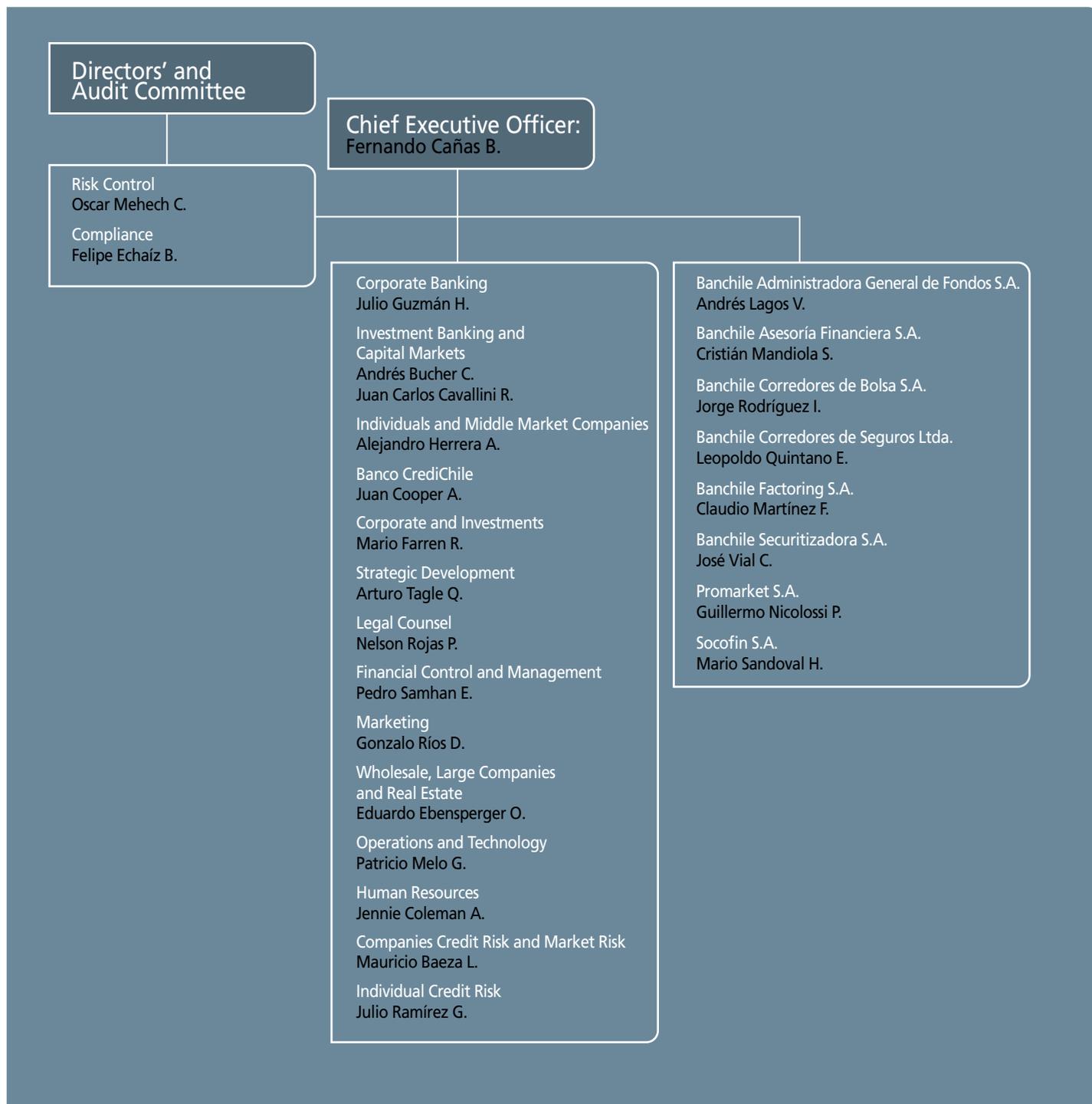
Having overcome the greatest difficulty faced in the last quarter of the year, a period in which we saw important episodes of restricted liquidity in the financial system, Banco de Chile begins the year 2009 strengthened by the trust of our customers and main foreign creditors, and with the support provided by the financial industry monetary and fiscal authorities. We will continue to work in a coordinated way and are prepared to undertake the appropriate actions necessary for moderating the effects of this crisis, supporting our customers and contributing, as we have permanently done, to the development of the country.

I reiterate my thanks to all those who participate in this outstanding team. They are the protagonists of the successes and achievements of this great organization. My most sincere congratulations and gratitude for the commitment and efforts made. I also thank our shareholders and our Board for the trust placed in this management.



**Fernando Cañas B.**  
Chief Executive Officer

# OUR MANAGEMENT



# PRINCIPAL INDICATORS

PERFORMANCE 2008

<i>Principal Indicators</i>	<i>2008</i>	<i>2007</i>	<i>% Change</i>
<b>Results for the Year <sup>(1)</sup></b>			
Financial revenues <sup>(2)</sup>	813,230	731,417	11.2%
Net financial revenue <sup>(3)</sup>	735,441	667,897	10.1%
Operating revenues	1,097,480	974,352	12.6%
Net operating revenue <sup>(3)</sup>	1,019,691	910,832	12.0%
Operating expenses	573,848	509,863	12.5%
Allowances for credit risk	138,593	75,641	83.2%
Consolidated net income	272,427	288,003	-5.4%
<b>Earnings per Share <sup>(4)</sup></b>			
Earnings per share (Ch\$)	3.37	3.37	
Earnings per ADS (Ch\$)	2,021	2,019	
Earnings per ADS (US\$)	3.21	4.07	
Number of shares (millions)	80,880	71,996	
<b>Profitability Ratios</b>			
Financial margin <sup>(5)</sup>	5.6%	5.2%	
Net financial margin <sup>(6)</sup>	5.1%	4.8%	
Fees income/ Operating revenues	19.7%	22.1%	
Fees income/ Net operating revenue <sup>(3)</sup>	21.2%	23.7%	
Fees income/ Average productive assets	1.5%	1.5%	
Operating revenues / Average productive assets	7.6%	7.0%	
Net operating revenue <sup>(3)</sup> / Average productive assets	7.1%	6.5%	
Return on average total assets	1.6%	1.8%	
Return on average capital and reserves	22.6%	24.7%	
<b>Capital Ratios</b>			
Basic Capital / Total assets	6.6%	6.6%	
Basic Capital / Risk-adjusted assets	8.6%	8.7%	
Effective Equity / Risk-adjusted assets	11.7%	12.0%	
<b>Credit Quality Ratios</b>			
Past due loans / Total loans	0.60%	0.55%	
Provisions for loan losses / Past due loans	277%	243%	
Provisions for loan losses / Total loans	1.66%	1.34%	
Allowances for credit risk / Average loans	1.09%	0.69%	
<b>Operationing and Productivity Ratios</b>			
Operating expenses / Operating revenues	52.3%	52.3%	
Operating expenses / Net operating revenue <sup>(3)</sup>	56.3%	56.0%	
Operating expenses / Average total assets	3.5%	3.2%	

(1) Millions of real pesos of December 2008.

(2) Includes net interest and indexation adjustments, net income from financial operations, net exchange income.

(3) Net of Monetary Correction.

(4) Figures for 2007 relate to Banco de Chile's historic figures (nominal), without including Citibank Chile.

(5) Financial Revenues to Average Productive Assets.

(6) Net Financial Revenue to Average Productive Assets.

# HIGHLIGHTS 2008

JANUARY 2008

## **The business of Banco de Chile merged with Citibank Chile starts officially.**

With the approval of the respective shareholder meetings and the authorizations of the regulatory entities both in Chile and the United States, Banco de Chile began its joint operations with Citibank Chile.

This is the combination of the largest Chilean-capital bank with one of the most important financial institutions in the world, which will offer various competitive advantages to Banco de Chile and benefits for its customers, staff and shareholders. These include a substantial improvement in its national and international coverage and in the variety of global products and services offered.

APRIL 2008

## **Banchile Citi Global Markets: the Investment Banking arm of Banco de Chile**

Investment Banking began to work under the brand Banchile Citi Global Markets® in order to meet the investment banking and capital markets product needs of Banco de Chile's customers.

This new seal seeks to demonstrate that the work of this area is the sum of broad experience in the local and international capitals markets, together with the support of Corporate and Large Companies Banking. This enables it to offer Bank customers integral advice on transactions like listing on stock exchanges, capital increases, block trades, IPO, bond issues, syndicated loans and project financing.



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MAY 2008

## **New Private and Preferential Banking in the Citi Edwards network**

Better branches with unique service and executives trained to respond to customers are the basis of the new service model of the "Rentas Altas" project. This is focused on the Preferential and Private Banking segments, i.e. customers with a large capital for investment. The initiative implies the offer of suitable products and services plus an exclusive service through branches especially designed for them, like El Bosque 500 and Santiago 2000, and areas in the offices of Banco de Chile and Edwards Citi.



JULY 2008

## **Novel time deposit with variable interest rate**

An innovative and unique financial product called "Average Chamber Index Deposit", was launched by Banco de Chile. It is directed mainly to institutional investors who seek to invest in short and medium-term instruments and permits them to avoid the risks implied in fixed-rate documents in the event of interest rate changes.

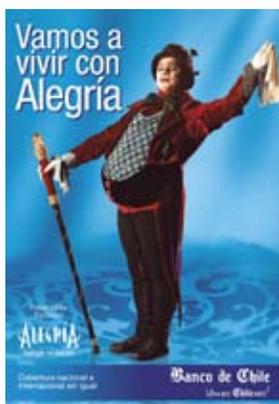
This deposit is the first financial instrument on the local market that offers investors the possibility of accessing a variable rate operated daily in the market, liquid and transparent. It is especially attractive in market situations like the present as, due to high inflation rates, there is a scarcity of deposits in UF for terms of less than 180 days.

AUGUST 2008

**The magic of "Alegria" of Cirque Du Soleil**

As the exclusive presenter of Alegria by Cirque Du Soleil, Banco de Chile brought to our country all the fantasy of this Canadian company. Acrobats, musicians, singers and clowns captivated the public with impeccable performances over two weeks.

More than 10,000 customers of Banco de Chile and Edwards Citi enjoyed the exclusive performances of this impressive spectacle, characterized by audacious acrobats, juggling and humor of the highest level.



NOVEMBER 2008

**Start of operations of the new Banco CrediChile**



With the launching of its renewed corporate image on November 10, the operations began of the new Banco CrediChile, resulting from its merger with Citibank's Financiera Atlas.

The institution has an attractive value proposal for customers as it is a specialist in its market segment, leader of the financial system and possesses technology, applications, operative support and credit processes of excellence. It also has a strong branch network and a trained team committed to their customers.

NOVEMBER 2008

**30 years of Banco de Chile together with Teletón**



On November 29 and 30, Banco de Chile completed 30 years working together with Fundación Teletón in the development of this solidarity crusade. This important landmark shows the strength of the Bank's commitment

with the rehabilitation and integration of disabled people in Chile. Thanks to the dedicated work of those who form part of Banco de Chile, Teletón was again successful in reaching a total of Ch\$22,533 million in donations.

**RECOGNITIONS 2008**



Great Place to Work Institute awarded Banchile Inversiones ninth place in its Best Place to Work in Chile ranking.



Capital magazine named Fernando Cañas as the best chief executive officer in Chilean banking in 2008.



Banco CrediChile was praised by Inacap for driving the country's competitiveness through its commitment with its staff training and development.



A total of seven Salmón prizes were won by Banchile Inversiones for the returns on its mutual funds, being the company receiving the most prizes for the third consecutive year.



The Banker magazine distinguished Banco de Chile as the bank of the year in Chile.



For the third consecutive year, Banco de Chile was awarded the Greatest Creation of Value prize by Capital magazine, for the increase in its international coverage, a growth in loans above that of the industry and efficiency improvements.



Banco de Chile was given fifth position by Euromoney magazine among the Best Managed Companies in Latin America – Banks and Financial Companies.



The Guarantees Fund for Small Businesses (Fogape) named Banco de Chile as the most efficient in the use of FOGAPE resources and also for its operational management given the close working relationships reached by the institution. Banchile Factoring was also named in the category Financing for Exporters.

# BANCO DE CHILE RESULTS ANALYSIS

## Results for the Year\*

The consolidated net income of Banco de Chile in 2008 was Ch\$272.427 million, equivalent to a return on average capital and reserves of 22.6%, and 27.4% of the aggregate net income of the financial system. This outstanding result, slightly lower than that of 2007 for Banco de Chile and Citibank Chile combined, was achieved in a highly-complex environment, not only due to for the implications inherent in the merger with Citibank Chile but also because of the turbulences in the global economy and their negative impact on global and local growth expectations.

With respect to the merger of its operations with Citibank Chile, the Bank showed significant non-recurring extraordinary effects, mainly related to severance payments and income on the sale of its foreign branches. These factors should be taken into account in properly evaluating the Bank's performance in 2008.

### Results for the Year <sup>(1)</sup>

(Millions of Ch\$ of December 2008)

	2008	2007	% Change
Net Financial Income <sup>(2)</sup>	735,441	667,897	10.1%
Net Fees	215,864	215,500	0.2%
Other Operating Income	68,386	27,435	149.3%
<b>Total Net Operating Revenue</b>	<b>1,019,691</b>	<b>910,832</b>	<b>12.0%</b>
Allowances for Credit Risk	-138,593	-75,641	83.2%
<b>Net Operating Revenues</b>	<b>881,098</b>	<b>835,191</b>	<b>5.5%</b>
Operating Expenses	-573,848	-509,863	12.5%
Taxes and Results of Investments in Companies	-34,823	-37,325	-6.7%
<b>Consolidated Net Income for the Year <sup>(3)</sup></b>	<b>272,427</b>	<b>288,003</b>	<b>-5.4%</b>

1) Includes results of Citibank Chile in 2007.

2) Includes net interest and indexation adjustments, net revenue from financial operations, net exchange gains and monetary correction.

3) Includes minority interest.

With respect to the reduced result in 2008 compared to the previous year, this was primarily due to the increase in allowances for credit risk and higher operating expenses, mainly related to the merger, which rose by 83.2% and 12.5% respectively. Both effects were almost fully offset by the solid expansion of 12.0% in real terms in net operating revenues, especially explained by the increase in financial income, and by other non-recurring income attributable to the sale earnings of the assets and liabilities of the foreign branches and from the sale income of shares in Visa Inc., as a result of the public offer for them on the New York Stock Exchange.

## Net Financial Income

Net financial income for the year showed a real increase of 10.1% over the previous year, from Ch\$667,897 million in 2007 to Ch\$735,441 million in 2008. This growth was based on the organic expansion of the loan portfolio and a greater net financial margin, which rose from 4.8% in 2007 to 5.1%.

### Net Financial Margin <sup>(1)</sup>

(Millions of Ch\$ of December 2008)

	2008	2007	% Change
Net Interest & Indexation Adjustment Income <sup>(2)</sup>	700,750	587,555	19.3%
Net Income from Financial Operations	387,703	58,640	561.2%
Net Exchange Gain (loss)	-353,012	21,702	-
<b>Net Financial Income <sup>(2)</sup></b>	<b>735,441</b>	<b>667,897</b>	<b>10.1%</b>
Average Productive Assets	14,426,046	14,013,021	2.9%
<b>Net Financial Margin <sup>(2)</sup></b>	<b>5.1%</b>	<b>4.8%</b>	<b>-</b>

1) Includes results of Citibank Chile in 2007.

2) Includes monetary correction.

\* For comparison purposes and in order to facilitate an analysis of the Bank's performance, the figures of the results and balance sheet of Banco de Chile prior to 2008 are shown on a pro forma basis including the Citibank Chile figures.

The increase of 33 basis points in the net financial margin is mainly explained by:

- (i) Higher inflation, as measured by the variation in the Unidad de Fomento, which augmented from 7.0% in 2007 to 9.3% in 2008, resulting in greater benefits for those assets denominated in Unidades de Fomento financed by liabilities denominated in Chilean pesos (Ch\$).
- (ii) Larger treasury revenues related to a successful assets and liabilities management strategy, increasing the Bank's net indexed position over its structural mismatch, in a rising inflation scenario.
- (iii) Greater contribution of sight deposits related to the higher level of nominal rates, as the average Monetary Policy Rate was incremented from 5.3% in 2007 to 7.1% in 2008.

These positive effects were partially compensated by a moderate reduction in operating margins, as a result of greater competition in the financial system.

The volume of average productive assets rose by 2.9% over the previous year, and there was also a change in composition between loans and financial investments. While the average loan volume increased by a real 8.4%, the average financial investment portfolio fell by a real 29.3%.

## Fees

The net consolidated fee income amounted to Ch\$215,864 million in 2008, practically the same as the previous year, contributing 21.2% of total net operating revenue.

### Net Fee Income <sup>(1)</sup>

(Millions of Ch\$ of December 2008)

	2008	2007	% Change
Bank <sup>(1)</sup>	126,660	122,708	3.2%
Administradora General de Fondos	37,657	38,073	-1.1%
Corredora de Seguros	18,210	20,388	-10.7%
Socofin	15,046	11,930	26.1%
Asesoría Financiera	6,773	1,319	413.5%
Corredora de Bolsa	9,501	17,336	-45.2%
Factoring	1,431	1,016	40.8%
Promarket	261	137	90.5%
Securitizadora	188	391	-51.9%
Trade Services Limited	137	201	-31.8%
Foreign Branches	0	2,001	-
<b>Total Net Fees</b>	<b>215,864</b>	<b>215,500</b>	<b>0.2%</b>

1) Includes results of Citibank Chile in 2007.

At the Bank level, net fees income achieved a real growth of 3.2%, mainly in credit card, checking account products, and insurance sales. The generation of higher fee income from credit cards was mainly reinforced by the growth in Bank's checking account holder base and the successful marketing strategies focused on motivating the use of these cards through attractive promotions, and by the new commercial cobranding agreements, which have compensated the tendency of contraction in the intermediation margins in the traditional credit business.

Net commissions generated by the subsidiary Corredora de Seguros continued to contribute substantially to total fee income, fundamentally as the result of a commercial strategy focused on the cross-selling of products with retail banking, with special emphasis on the ex-Citibank Chile customer portfolio. Also notable was the development and launching of new products and services, as well as the consolidation of customer services areas and the Telemarketing distribution channel, which has permitted an increase in market presence and produced outstanding results.

The subsidiary Asesoría Financiera produced an extraordinary performance in 2008, bolstered by a solid corporate image resulting from the combination of the Banchile and Citi Global Markets images which permitted greater access to international products, thus participating in important transactions in mergers and acquisitions, financing and restructuring of liabilities and capital increases. As a result, this subsidiary has managed to consolidate its leadership position in the Chilean market in investment banking and capital markets.

These outstanding performances were partially offset by reduced commissions by the subsidiaries Corredora de Bolsa and Administradora General de Fondos, which were especially affected by the international financial crisis. In the case of Corredora de Bolsa, it was perturbed by a large reduction in share trading volumes and their lower prices. Regarding Administradora General de Fondos, the consequences of financial turbulences, mainly during the second half of the year, were reflected in clients' requirements to adjust their portfolios managed by that subsidiary to ones with a higher component of fixed-income instruments, thus negatively affecting fee income. However, these lower commissions were partially compensated by an increase in the volume of funds managed during 2008 when Administradora de Fondos Mutuos achieved a market share of 24%, compared to 23% in 2007.

Lastly, it should be pointed out that the figures for 2007 include fees earned by the foreign branches which in 2008 are not present, as they were sold at the beginning of the year.

## Other Operating Revenues

The substantial increase in Other operating revenues in 2008 is practically all due to extraordinary income earned in the period. Non-recurring income equivalent to Ch\$38,459 million was received in 2008 from the sale of the branches that Banco de Chile had in New York and Miami, and as part of the merger agreement with Citibank Chile. The Bank also disposed of its shareholding in Visa Inc. in a public offer made by that company on the New York Stock Exchange. This transaction produced additional extraordinary income of Ch\$10,352 million.

## Allowances for Credit Risk

The charge for allowances for credit risk amounted to Ch\$138,593 million in 2008, compared to Ch\$75,641 million in 2007. This increase, equivalent to a real 83.2%, was mainly the result of (i) higher levels of risk related primarily to the mass retail segment and some company segments, (ii) real organic growth of 8.1% in the Bank's overall loan portfolio, and (iii) the unification of credit risk criteria and standardization of classifications between the loan portfolios of the merged banks.

It is important to state that the increase in the charge for allowances has been observed for the whole financial system. Economic deceleration and the impact of financial turbulences on expectations of global and local growth have deteriorated credit-risk levels in those more exposed segments, primarily in the retail market and in the wholesale market in sectors most sensitive to recession scenarios.

Nevertheless, the Bank holds its leadership position in terms of credit quality compared to the average of the financial system and its most important competitors. The Bank's charge for allowances to average loans ratio increased from 0.7% in 2007 to 1.1% in 2008, while the ratio for the system rose from 1.1% to 1.4%. The same conclusion is obtained by comparing the ratios of allowances to past-due loans which reached 243% in 2007 and 277% in 2008 in the Bank, levels substantially higher than 210% and 182%, figures obtained by the financial system over the same periods.

It should be mentioned that, if the economy continues to deteriorate, it is reasonable to expect an increase in risks related to the loan portfolio. Following the Bank's conservative risk policies, it has therefore made additional allowances for an amount of approximately Ch\$17,000 million in 2008 which, according to current regulations, are booked as Other operating expenses.

### Operating Expenses

Operating expenses amounted to Ch\$573,848 million in 2008, compared to Ch\$509,863 million the previous year, which represents a real increase of 12.5%. Despite this, the efficiency ratio remained at 52.3% in both years.

#### Operating Expenses <sup>(1)</sup>

(Millions of Ch\$ of December 2008)

	2008	2007	% Change
Staff Remuneration & Expenses	306,040	276,273	10.8%
Administrative Expenses	177,862	170,918	4.1%
Depreciation & Amortization	35,573	33,413	6.5%
Other Operating Expenses	54,373	29,259	85.8%
<b>Operating Expenses</b>	<b>573,848</b>	<b>509,863</b>	<b>12.5%</b>
Operating Revenue	1,097,480	974,352	12.6%
<b>Efficiency Ratio</b>	<b>52.3%</b>	<b>52.3%</b>	<b>-</b>

1) Includes results of Citibank Chile in 2007.

The largest expenses in 2008 are basically related to various non-recurring items associated with the merger. In global terms, the extraordinary expenses incurred by the Bank amounted to Ch\$44,762 million and are mainly related to the following:

- (i) Severance payments.
- (ii) Extraordinary staff bonuses due to the merger.
- (iii) Advisory expenses (technological and financial).
- (iv) Renovation and preparation of branches and offices.
- (v) Marketing and advertising expenses.
- (vi) Accelerated amortization of intangible assets.
- (vii) Write-off of discontinued communications equipment.

In addition, operating expenses increased as a result of larger business volumes related to organic growth, an increase in other operating expenses associated to additional allowances made in the last quarter of 2008 amounting to approximately Ch\$17,000 million, and non-recurring costs of approximately Ch\$13,000 million relating to collective negotiation with the unions of Banco de Chile and its subsidiaries Socofin and Promarket.

Excluding the non-recurring expenses and revenues, the efficiency ratio improves to close to 48%, which constitutes important progress compared to 2007.

### Loan Portfolio

The Bank's total loans amounted to Ch\$13,649,005 million as of December 2008, a real increase of 8.1% over the end of the previous year. In relation to the financial system, the volume represents a market share of 19.4%, below the level of 19.7% in December 2007.

#### Composition of the Loan Portfolio <sup>(1)</sup>

(Millions of Ch\$ of December 2008)

	2008	2007	% Change
<b>Commercial Loans</b>	<b>9,453,444</b>	<b>8,532,668</b>	<b>10.8%</b>
Commercial Loans	6,496,155	5,960,718	9.0%
Foreign Trade Finance	1,532,302	1,004,340	52.6%
Checking Account Debtors	193,062	288,811	-33.2%
Factoring	483,904	523,573	-7.6%
Commercial Leasing	724,423	730,369	-0.8%
Other Credits & Accounts Receivable	23,598	24,857	-5.1%
<b>Housing Loans</b>	<b>2,308,013</b>	<b>2,170,160</b>	<b>6.4%</b>
<b>Consumer Loans</b>	<b>1,887,548</b>	<b>1,928,393</b>	<b>-2.1%</b>
<b>Total Loans</b>	<b>13,649,005</b>	<b>12,631,221</b>	<b>8.1%</b>

1) Includes results of Citibank Chile in 2007.

The larger business volume originated specifically in commercial loans and housing loans, which showed real growth of 10.8% and 6.4% respectively. This was partially offset by the sale of the loan assets of the foreign offices (Miami and New York) to Citigroup, plus a reduction in consumer loans due to the economic deceleration noted in the second half of 2008.

The annual growth was led by the large companies and corporations segments, following the strengthening of the Bank's competitive position after the merger with Citibank Chile and the signing of the Connectivity Agreement with Citigroup. The Bank currently has an extensive and robust variety of products and services offered to companies, from short and long-term financing to advisory services relating to stock market listings, capital increases, and mergers and acquisitions.

The Bank's competitive strengths in these segments are reflected in the growth of commercial loans, driven by commercial loans, foreign trade finance and factoring, which in turn translate into important market shares at December 2008 of 20.5%, 21.4% and 27.3% respectively.

As a result of its efforts, both by the Bank and its factoring subsidiary, the Bank was praised among the institutions participating in the FOGAPE for its management of these resources and the strengthening of financing for exporters.

On the other hand, consumer loans showed a real decrease of 2.1% compared to December 2007. The contraction in private spending, together with high interest rates and the gradual increase in risk noted during the year in the retail segments, have accentuated the deceleration in consumer loans in the financial system as a whole. Despite this scenario, the Bank managed to increase its market share in consumer loans from 21.5% in December 2007 to 22.0% in 2008. This important achievement is the result of new and attractive value proposals, in particular those developed for the high-income segments. The integration of the CrediChile and Atlas networks also consolidated the Bank's competitive position in the mass and lower-income segments.

## Portfolio of Investment Instruments

The Bank's investment portfolio at December 2008 amounted to Ch\$1,751,281 million, representing a reduction of 7.7% compared to the previous year. This change is mainly explained by a reduced exposure to foreign securities as a consequence of the foreign branches sale. It should be mentioned that the Bank has no exposure to institutions that have been seen to be in financial difficulties as a result of the international financial crisis.

At the close of 2008, the Bank's investment portfolio is mostly classified as available for sale, as a result of the classification criteria standardization between Banco de Chile and Citibank Chile. During the third quarter of 2008, a reclassification was made of the investment portfolio coming from Banco de Chile, from instruments for trading to instruments available for sale, with the respective authorization of the Superintendency of Banks.

## Financing

Total liabilities amounted to Ch\$16,830,697 million as of December 31, 2008, an increase of 10.4%. Interest-free deposits showed real growth of 8.6% while interest-bearing deposits increased by a real 11.0% during the year.

Derivative contracts expanded by 81.6%, which accounts for practically all the growth in interest-free liabilities. The treasury area was noted for its activity in the structured products sale to non-financial companies, especially derivatives products.

The 225 basis points increase in the monetary policy rate, added to the high inflation rate during the year, accentuated the alternative cost for customers for maintaining sight balances, stimulating their preference for savings products, primarily time deposits. At the same time, the effects of the recent financial turbulences and the markets' volatility, motivated customers to replace investments in mutual funds with these savings products.

**Composition and Evolution of Liabilities <sup>(1)</sup>***(Millions of Ch\$ of December 2008)*

	2008	2007	% Change
<b>Interest-free Liabilities</b>	<b>4,444,605</b>	<b>4,092,479</b>	<b>8.6%</b>
Checking Accounts	2,534,753	2,789,242	(9.1)%
Other Sight Deposits	472,508	519,948	(9.1)%
Financial Derivative Contracts	862,799	475,131	81.6%
Operations Currently Being Settled	141,989	105,438	34.7%
Other Liabilities	432,556	202,720	113.4%
<b>Interest-bearing Liabilities</b>	<b>12,292,384</b>	<b>11,074,883</b>	<b>11.0%</b>
Time & Savings Deposits	8,472,590	7,990,733	6.0%
Repurchase Agreements	420,658	408,078	3.1%
Borrowings from Banks	1,498,549	882,896	69.7%
Issued Debt	1,900,587	1,793,176	6.0%
Mortgage-funding Notes	350,428	465,471	(24.7)%
Subordinated Bonds	555,576	486,124	14.3%
Other Bonds	994,583	841,581	18.2%
<b>Others</b>	<b>93,710</b>	<b>73,224</b>	<b>28.0%</b>
<b>Total Liabilities</b>	<b>16,830,699</b>	<b>15,240,586</b>	<b>10.4%</b>

1) Includes results of Citibank Chile in 2007.

The 69.7% real growth in borrowings from banks basically represents lines of credit for financing foreign trade operations, which increased by 52.6% during the year.

Important funding was obtained from abroad during the year, specifically from the Bank of the Popular Republic of China, partly the fruit of relations that have been built up since the opening of the Bank's representative office in Beijing, and Banco Nazionale del Lavoro, Italy. Simultaneously, important credit lines were renewed at times of great international financial turbulence and low global liquidity, which confirms the confidence of foreign banks in Banco de Chile.

Finally, notable is the increase in debt issued by the Bank, mainly straight and subordinated bonds, which have compensated the reduced volume of mortgage-funding notes, consistent with a strategy oriented to financing housing products from own resources.

**Shareholders' Equity**

The Bank's total shareholders' equity at the end of 2008 was Ch\$1,297,743 million. The reduction compared to 2007 is just an accounting presentation as, effective 2008, the new prevailing regulations deduct from equity the provision for minimum dividends at the end of 2008, equivalent to 70% of the net income for the year.

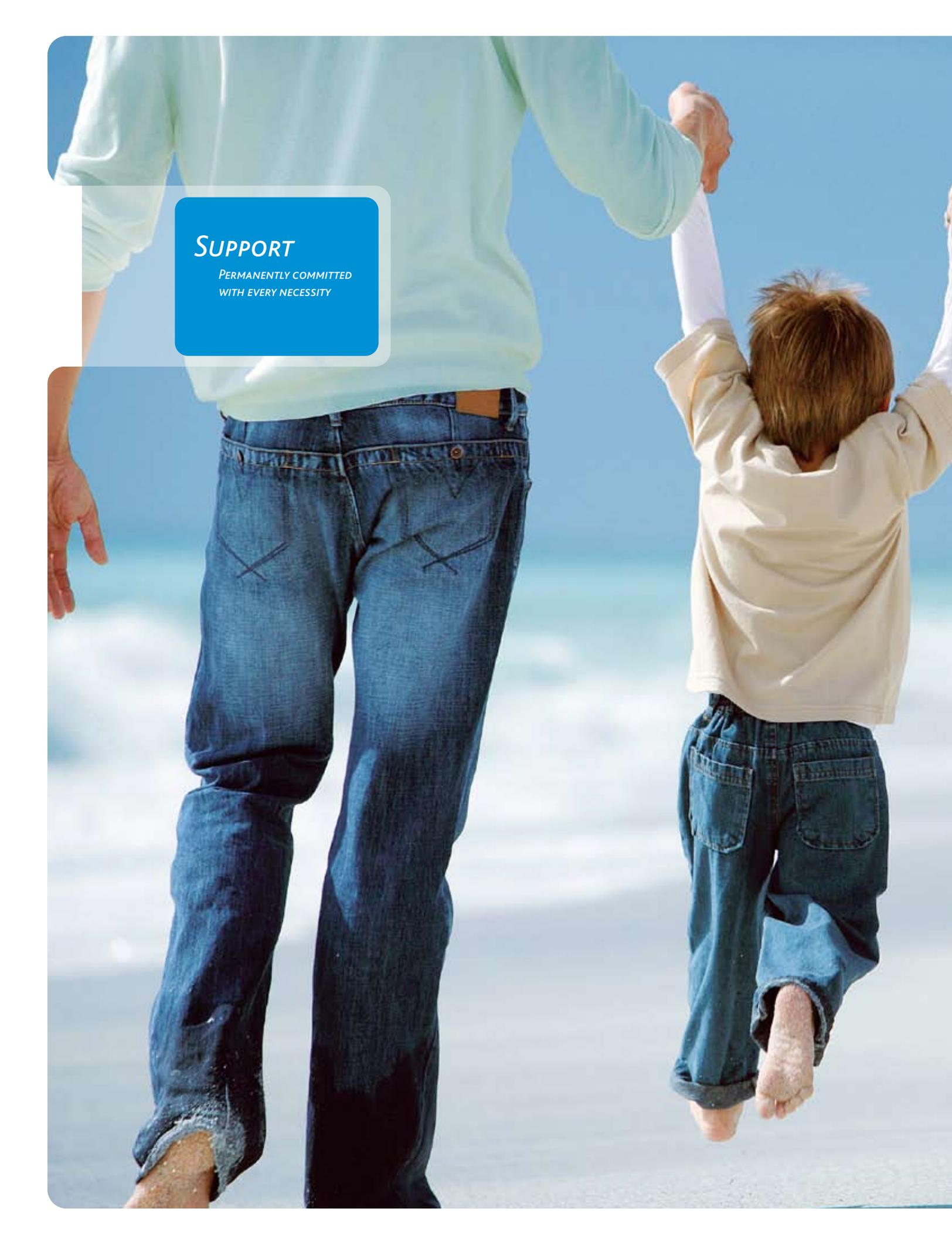
**Shareholders' Equity <sup>(1)</sup>***(Millions of Ch\$ of December 2008)*

	2008	2007	% Change
Capital	1,106,491	1,087,873	1.7%
Reserves	118,170	118,335	-0.1%
Valuation Accounts	-16,660	-6,963	139.3%
Retained Earnings Previous Years	8,007	8,008	0.0%
Net Income (loss) for the Year	272,425	288,000	-5.4%
Provision for Minimum Dividends	-190,698	-	-
Minority Interest	8	10	-20.0%
<b>Shareholders' Equity</b>	<b>1,297,743</b>	<b>1,495,263</b>	<b>-</b>

1) Includes operations and results of Citibank Chile in 2007.

An element that strengthened the Bank's equity base in 2008 was the sale of the remaining shares issued in the context of the Banco de Chile capital increase agreed at the Extraordinary Shareholders Meeting held on May 17, 2007. This, the equivalent of approximately Ch\$17,370 million, represented a 1.2% equity increase over 2007. On the other hand, there was a reduction in the valuation accounts of the equivalent of Ch\$14,352 million originating from the adjustment to market value of the investment portfolio classified as available for sale, mainly Chilean corporate bonds.

Finally, it is important to note the Bank's strength in terms of capital adequacy. At the end of December 2008, the Basle ratio (effective equity to risk-adjusted assets) was at a level of 11.7%, while the basic capital to total assets ratio was 6.6%, both above the regulatory limits. The Bank's effective equity has been strengthened with the placement of UF 2.5 million of subordinated bonds in December 2008, taking advantage of the better margins for the issue of subordinated bonds resulting from the capital increase that followed the merger with Citibank Chile.



*SUPPORT*

*PERMANENTLY COMMITTED  
WITH EVERY NECESSITY*



*BUSINESS AREAS*  
Banco de Chile

# BANCO DE CHILE BUSINESS AREAS

	Business Areas	Target Market	Strategy
Retail Market	Individuals and Middle Market Companies	<ul style="list-style-type: none"> <li>● Individuals with monthly income over Ch\$400,000.</li> <li>● Small and middle-sized companies with annual sales of up to Ch\$1,400 million.</li> </ul>	<ul style="list-style-type: none"> <li>● Strong sub-segmentation and multi-brand positioning.</li> <li>● Focus on products cross-selling and service quality.</li> <li>● Satisfaction of specific needs with broad critical-mass products.</li> </ul>
	Banco CrediChile	<ul style="list-style-type: none"> <li>● Individuals with monthly income below Ch\$400,000.</li> </ul>	<ul style="list-style-type: none"> <li>● Product range that enables the customer to start using banking services.</li> <li>● Focus on distribution network and sales force.</li> </ul>
Wholesale Market	Corporate	<ul style="list-style-type: none"> <li>● Companies with annual sales of over Ch\$70,000 million. Its customers include the large business conglomerates in Chile (financial, commercial, manufacturing, infrastructure, concessions and services sectors) and multinational companies, i.e. related to large companies with a global presence and which have businesses in Chile.</li> </ul>	<ul style="list-style-type: none"> <li>● Area distributing business for the rest of the organization, particularly subsidiaries.</li> <li>● Focus on margin growth and cross-selling.</li> </ul>
	Wholesale, Large Companies & Real Estate	<ul style="list-style-type: none"> <li>● Companies with annual sales of between Ch\$1,400 million and Ch\$70,000 million. Companies in the construction and real estate sector.</li> </ul>	<ul style="list-style-type: none"> <li>● Emphasis on offering value-added services like electronic banking, leasing, foreign trade, cash management and financial consultancy.</li> <li>● Integral product offer supported by a solid distribution network.</li> </ul>
	Investment Banking & Capital Markets	<ul style="list-style-type: none"> <li>● Companies with strategic advice requirements like capital increases, financing and debt restructuring, mergers and acquisitions, and international business.</li> </ul>	<ul style="list-style-type: none"> <li>● Emphasis on integral advice to clients on strategic decisions.</li> <li>● Necessary support in accessing local and international financial markets most efficiently.</li> </ul>
	Treasury	<ul style="list-style-type: none"> <li>● Capital markets firms and large companies intensive in the use of highly-transactional products like derivatives and investments.</li> </ul>	<ul style="list-style-type: none"> <li>● Long-term business relations, providing the customer with specialized financial guidance that adds value to their business.</li> </ul>

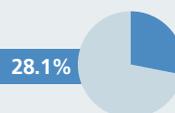
Results 2008

Loan portfolio by market

Contribution to pre-tax income 2008

- 2.0% real increase in consumer loans.
- 6.9% and 0.3% increases in housing and commercial loans respectively.
- Addition of 85,000 new customers in the objective segments.
- 1.1% increase in consumer loans to the segment.
- Strengthening of the distribution network with the integration of the CrediChile and Atlas networks and the opening of four new branches.

37.7%



4.5%



- 19.9% increase in loan portfolio over previous year.
- 219% increase in investment banking fees.
- 88% increase in treasury-related products.
- 9.0% growth in loan portfolio.
- Increase of 24 basis points in market share of foreign trade.
- 60% growth in the use of Citibank in international custody by Banco de Chile customers.
- Debt transactions of over US\$1,930 million carried out.
- Over US\$630 million of capital transactions which include capital increases, and shareholdings purchases and sales.
- Over US\$1,315 million in company mergers and acquisitions.
- Issue of UF 12 million in straight and subordinated bonds, plus the issue of a new line for UF 20 million.

28.7%



27.2%



1.4%



23.9%



1.9%

11.7%



Subsidiaries

Subsidiary companies that offer complementary financial services to the Bank's business, including securities trading, investment and mutual funds, insurance broking, financial consultancy, factoring, collections, securitization and sales force.

- **Banchile Administradora General de Fondos**, market leader with a 26.79% market share in managed funds. Notable in 2008 was the incorporation into the subsidiary of the wide range of mutual funds and investment funds of Legg Mason.
- **Banchile Corredores de Bolsa**, market leader with a share of 13.91% in stock volumes traded. Produced a net income of Ch\$9,726 million.
- **Banchile Corredores de Seguros**, exceeded the annual average of premiums sold in 2007 by 3%.
- **Banchile Factoring**, with a 22.4% market share showed growth of 16.4% in its stock of operations.
- **Banchile Securitizadora** holds a portfolio of securitized assets at end 2008 of Ch\$170,215 million.

*During 2008, the Individuals and Middle Market Companies Division of Banco de Chile maintained a positive positioning in all its segments, placing special emphasis on the incorporation of retail banking customers of the former Citibank Chile and the preferential segments, through a new service model characterized by exclusiveness and excellence.*

*The focus in 2008 was to a large degree on improving the service quality provided to customers, which produced positive results in the second half of the year. Overall, the year ended with a 2.0% real increase in loans.*

## INDIVIDUALS AND MIDDLE MARKET COMPANIES DIVISION

The Individuals and Middle Market Companies Division is responsible for offering financial services to individuals with monthly income of over Ch\$400,000, and to small and medium business with annual sales of up to Ch\$1.400 million. It has one of the largest distribution networks in the country, formed by 246 service points throughout Chile, including eight attention centers for Private Banking customers, 39 branches that operate under the Banco Edwards Citi image, and 19 cash agencies. These are complemented by a network of 1,489 automated teller machines and 417 self-consulting terminals.

It should be pointed out that the branches of the former Citi were successfully added during the year, four of these to the Banco de Chile network and 15 to the Edwards Citi network. Three new branches were also opened in 2008 in Santiago and the regions.

The Division offers its Individuals Banking customers a wide range of products and services that include checking accounts, automatic bill payments, debit cards, credit cards, free-purpose credit lines, housing loans in their different structures, consumer loans, life and general insurance, savings instruments, mutual funds, stock trading and foreign currency services. In addition, for each segment, the Division has different value proposals by product, brand, pricing and service channels.

In the business area, the Division provides financial services to approximately 65% of the medium-sized businesses in the country and over 40% of small businesses. It offers each of them a wide range of products and services including various forms of financing, support for import and export operations, payments and collections, factoring services, leasing contracts, checking-account related services and payments to and from abroad, investment management, insurance brokerage, currency trading and loans covered by the Small Entrepreneur Guaranty Fund (FOGAPE).

During 2008, loans in the individuals segment increased by 2.0% to Ch\$5,146,000 million. Regarding the Division's products, notable were housing and consumer loans for the individuals segment, and commercial loans for the financing needs of the companies segments, which showed real annual change rates of 6.9%, -3.4% and 0.3% respectively. In terms of number of customers, the Division incorporated 85,000 in the objective segments, managing by the end of 2008 a total portfolio of 544,000 checking accounts. This represents an increase of 8.4% over the previous year.

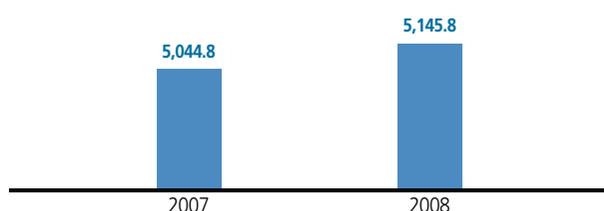
In order to strengthen customer relations, we worked intensively in improving the service quality which was affected by the merger process, with very good results in the second half of the year, maintaining the customer desertion rate at the Bank's good historical levels. The Customer Service Area executed an excellent task in ordering and revising the functions of its staff in the branch network in order to guide their work toward service quality and to the customer.

Regarding the Private Banking and Preferential Banking segments, the Division introduced a new attention model characterized by a service of excellence, with a wide range of products according to the customers' requirements. Exclusive attention facilities were opened with specialized executives and a renovated customer communications model. The International Private Banking also joined the Division, and together performed an outstanding work for managing the impacts of the merger process and maintaining excellence in the services.

The most important achievement of the Division's human capital management was the remarkable improvement in the internal work climate and the evaluations of the departmental supervisors. The reinforcement of training in different matters related to the business enabled it to surpass the targets set for 2008.

### Individuals and Middle Market Companies Loans

(Billions of Ch\$ of December 2008)



### Individuals and Middle Market Companies Composition by Business Line

(Billions of Ch\$)

	2008	%
Commercial	1,415.2	27.5
Leasing	155.4	3.0
Consumer	810.8	15.8
Lines of credit	247.2	4.8
Credit cards	280.4	5.4
Housing	2,236.9	43.5
<b>Total</b>	<b>5,145.8</b>	<b>100.0</b>

### Individuals and Middle Market Companies Results

(Billions of Ch\$)

Operating Revenues*	417.3
Provisions for Loan Losses	-67.6
Operating Expenses	-204.0
<b>Net Income Before Tax</b>	<b>145.7</b>
<b>Operating Revenues* / Average Loans</b>	<b>8.2%</b>

\*Net of Monetary Correction.

*Following a successful integration of Banco CrediChile and Atlas networks, the Consumer Division ended 2008 with excellent results and is in a solid position to consolidate itself as the benchmark bank in its segment, the leader in consumer loan volumes, profitability and service quality for its customers.*

*Despite the most complex economic environment at the industry level, Banco CrediChile increased its consumer loans by 1.1% over the previous year.*

## BANCO CREDICHILE

The objective market of Banco CrediChile is the workers, pensioners and micro-businesses in the C3 and D social-economic segments. These make up a potential market of 50% of the active Chilean population and relate to people whose incomes fluctuate between Ch\$170 and Ch\$400 thousand pesos monthly.

The Division has 1,050,000 customers, to whom it offers a wide range of products and services, including consumer loans, credit and debit cards, life and general insurance, remuneration credits, and sight and time savings accounts. For this, it has the most extensive networks in the segment, with 172 branches and attention points from Arica to Punta Arenas.

Consistent with the corporation's strategic guidelines, the Consumer Division's efforts in 2008 were concentrated on the integration of Banco CrediChile and Financiera Atlas networks, the consumer credit division of Citibank Chile. During this process, they maintained the best practices of each institution in order to create the best bank in the segment in Chile.

The integration of both networks was based on the development of an attractive value proposal with a service quality of excellence. The process also took into account the standardization of the service platforms, credit policies and collection processes, and ended with the adjustment of the branches and the launch of the new brand image of Banco CrediChile. This will enable the Consumer Division to sustain its challenges of growth and profitability.

Consumer loans, which make up 88% of the total loans of Banco CrediChile, produced growth of 1.1% over the previous year (considering the sum of the two former institutions), a figure that compares positively when considering that the relevant competition in this segment showed a 2.4% decline in real terms in its business volume. These important achievements are supported by a better infrastructure through the renovation of the Atlas branches and the strengthening of the distribution network with four new branches, which will provide a better service to customers.

During 2008, Banco CrediChile continued to develop a strong synergy with other divisions of the corporation. In the area of operations and systems, the Division also improved the efficiency of its operating processes by centralizing its operations, reinforcing its processing

infrastructure and technological platform, and implementing the new Genesis teller system which enables it to standardize the tellers of its network with Banco de Chile.

Among the business initiatives, the joint effort with the Middle market Companies, Large Companies and Corporate segment responsible, attracted close to 100,000 new customers through the establishment of agreements for crediting salaries and the repayment of loans by deduction from pay slips.

As a result of a strict control of expenses and improvements in the generation of revenue, the Consumer Division in 2008 increased its contribution to the results of Banco de Chile, improving its efficiency ratio and raising its return on assigned equity.

Particularly important in relation to efficiency improvements are the cost synergies from the merger of Banco CrediChile and Atlas, which were identified and monitored during the year. Regarding profitability, its change is particularly outstanding given the increase in credit risk that can be appreciated in the market compared to the previous year.

As further increases are foreseen in the risk of consumer loan portfolios, Banco CrediChile and the Individuals Credit Risk Division of Banco de Chile have reinforced their work of monitoring debtors' behavior, and have refined their recoveries policies.

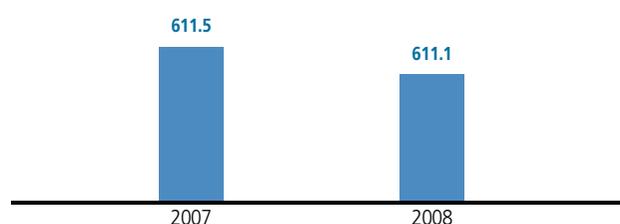
It is believed that the demand growth moderation for consumer loans, which has been noted since early 2008 and which worsened toward the end of the year, will be maintained for almost all 2009. Banco CrediChile has therefore tried to consolidate its position, maintain and support its customers, make its operation more efficient and improve the service quality.

Consistent with the corporation's human resources policies, Banco CrediChile is constantly developing excellence in its team in order to provide a service with the highest quality standards. During 2008, classroom and e-learning training was given to more than 1,500 staff, implying a total of 168,000 hours training. The Division also organized two diploma courses in an agreement with the Instituto de Estudios Bancarios Guillermo Subercaseaux and Universidad Adolfo Ibáñez.

A highly-committed team has been formed, with special emphasis placed on merit as the basis for professional development opportunities, and suitably complemented by after-work activities. This enables Banco CrediChile to be in an excellent position to focus on those actions that will lead it to be a great retail bank, leader in its segment, highly profitable and with the best service for its customers.

### Banco CrediChile Loans

(Billions of Ch\$ of December 2008)



### Banco CrediChile Fees Composition by Business Line

(Billions of Ch\$)

	2008	%
Consumer loans	508.9	83.3
Credit cards	30.4	5.0
Housing loans	64.7	10.6
Others	7.1	1.2
<b>Total</b>	<b>611.1</b>	<b>100.0</b>

### Banco CrediChile Results

(Billions of Ch\$)

Operating Revenues*	112.5
Provisions for Credit Losses	-41.0
Operating Expenses	-37.5
<b>Net Income Before Tax</b>	<b>34.0</b>
<b>Operating Revenues* / Average Loans</b>	<b>18.4%</b>

\*Net of Monetary Correction.

# WHOLESALE MARKET

*Through the Wholesale, Large Companies and Real Estate Division, Banco de Chile provides its customers with financial services according to the segment to which they belong and their business in the different regions of the country. According to the Division's results for 2008, its total loans represent 27% of the Bank's total and sight balances 23%.*

*A new commercial organization was introduced during the year to more effectively meet the needs of each customer and their productive sector. The Cash Management area was added to the Division in order to provide an optimum attention in transactional services at the local level, in the management of accounts abroad and to provide continuity to the support of the Chilean company customers of Citibank.*

*Banco de Chile is the absolute leader in foreign trade; and also in the market of custody and trust commissions with more than a 70% aggregate market share in local businesses. The Real Estate and Construction area is considered to be the most important of all the banks.*

## WHOLESALE, LARGE COMPANIES AND REAL ESTATE DIVISION

The Wholesale, Large Companies and Real Estate Division offers its products and services to customers with annual sales between Ch\$1,400 million and Ch\$70,000 million approximately. The Division's account executives are distributed in the branches of the country main cities, attending nearly 15,000 customers.

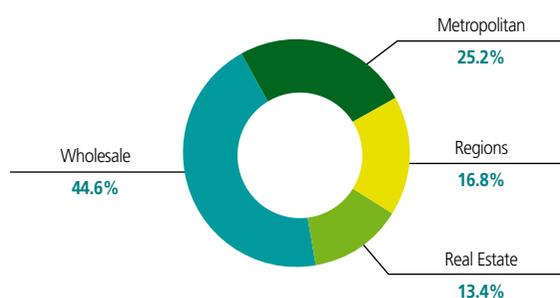
The current Division organization reflects the increasingly sophisticated requirements of its customers and the industry, and also the incorporation of new customers as a result of the merger with Citibank Chile. During 2008, this Division performed a deep restructuring of its business areas, identifying the different customer segments and incorporating products that were managed by other divisions, in order to strengthen an integral and specialized financial service.

According to the results for the year, the Division's loans represent 27% of the Bank's total and sight balances 23% of the total.

The Division's customers are serviced through a proposal whose purpose is to satisfy all their financial needs, providing a service of excellence that includes as its central pillar proximity and guidance in the area of financial services. It has four business areas for this in the segments of companies according to the volume of sales and economic sector:

Area	Sales / Economic Sector	Nº Customers (% Division)	Loans (% Division)	Nº Executives (% Division)
Real Estate	Real estate & construction companies with lines over UF 50,000.	8.7%	19.0%	9.1%
Metropolitan	Between Ch\$1.4 & Ch\$8 billion.	44.9%	13.9%	45.5%
Regions	Between Ch\$1.4 & Ch\$70 billion with head office in regions.	26.2%	14.4%	26.6%
Wholesale	Between Ch\$8 & Ch\$70 billion.	20.2%	52.7%	18.8%

## Gross Margin by Area



The Division's principal achievements were the consolidation of the sub-segmentation by customer's potential value, the creation of business centers in La Serena and east Santiago, and the implementation of a new attention model for the Large Metropolitan Companies segment, with the creation of a customer assistance center and a renovated communications platform. The Division also worked during 2008 on the development of a customer acquisition structured process with centralized risk evaluation.

The Wholesale area offers less traditional products like the arranging of syndicated loans, investment banking services like bond issues, the placement and sale of shares, company mergers and acquisitions, plus products related to the Bank's Treasury area for the sale of forward and derivative contracts which have gained in importance, reflecting the integral value proposal designed for this segment.

The Real Estate and Construction area is recognized as the largest and most important among the banks. 60% of its loans are in real estate and 40% in construction and contractors in general. The Division works with recognized and well-experienced companies which have managed different crises successfully. This, added to healthy financing structures, has enabled them to face the current economic and financial situation calmly and optimistically. The credit risk cost or portfolio cost of the Real Estate portfolio in 2008 was 0.24% of average loans.

## Cash Management

The Cash Management area was added to the Division during 2008 in order to provide better service to customers in cash flow management services, payments and collections, and management of accounts abroad.

Within this area was created the International Cash Management Department to provide continuity to the support of Chilean company customers of Citibank in other countries. During 2008, the team worked on the process of transferring checking accounts from the former branches of Banco de Chile in New York and Miami to the global platform of Citibank, the entity that acquired these operations.

A specialized sales team was also formed in this area to strengthen the new customers incorporation and the offer of products to the corporation's customers.

During 2008, the Local Payment Products Department took part in various important projects, one of the most relevant being the stabilization of the Payments System which contemplated the introduction of new computer infrastructure to support the growing volumes of operations and optimize the use of resources. This resulted in a more robust payments service and adjusted to the customers' requirements.

In April 2008, the "dollar payment button" on internet was established to allowed customers to pay taxes on line in foreign currency from a local account or a Citibank New York account. This has allowed us to position ourselves as market leaders, being one of the first banks to offer this service and managing to attract a large part of the market of companies authorized by the Chilean Treasury to make these payments.

A Suppliers Portal was also developed, a service that will bear fruit in 2009 and which will enable the Division to differentiate itself from the competition by speeding up the process of loading and settlement of payments, adding the possibility of carrying out confirming.

## Foreign Trade

With respect to foreign trade services, Banco de Chile remained the leading bank in 2008, achieving the largest share in terms of related financing. Its average share increased, compared to the aggregated shares of Citibank Chile and Banco de Chile for 2007, by 24 percentage points of market and with a more than 190 basis points difference from the next largest bank.

There was a real increase in total balances in foreign trade of more than 53%, with a variation in foreign currency revenues of over 50%, increasing the average market share in loans and contingent credits.

## Custody

One of the major opportunities of the merger between Citibank Chile and Banco de Chile was the possibility of offering a global custody service for foreign investors buying shares and bonds issued by Chilean companies. This has resulted successfully, permitting the market share maintenance of the two former banks.

Banco de Chile is currently the absolute leader in the custody and trust commissions market, with a more than 70% aggregate share in local business. It has managed to stabilize the services and introduce new products, according to market changes and without credit losses despite the international crisis.

An important progress following the merger was the 60% growth in the use of Citibank international custody products by customers of Banco de Chile.

## Banchile Leasing

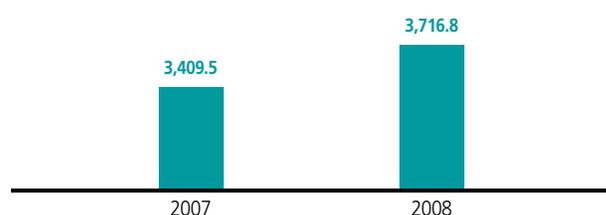
Leasing Andino was formed in 1977 as a subsidiary of the Bank and was absorbed by it in 1999. As from 2008, it began to operate under the Banchile Leasing brand. It currently has 7,131 customers, 11,757 contracts outstanding and a portfolio volume of Ch\$724 billion.

The customer portfolio is diversified in its financings, the main product being real-estate leasing, with 42.5%, followed by transportation equipment, with 14.7%, and industrial equipment, with a 14.5% share.

Important also were the financings granted to customers through development incentive programs such as Fogape, Fogain and others arranged through the Corporación de Fomento de la Producción (state development corporation).

### Wholesale, Large Companies & Real Estate Division Loans

(Billions of Ch\$ of December 2008)



### Wholesale, Large Companies and Real Estate Division Loans Composition by Line of Business

(Billions of Ch\$)

	2008	%
Commercial	2,221.7	59.8
Foreign Trade	874.8	23.5
Checking Account Debtors	45.9	1.2
Factoring	64.2	1.7
Leasing	495.1	13.3
Others	15.2	0.4
<b>Total</b>	<b>3,716.8</b>	<b>100.0</b>

### Wholesale, Large Companies and Real Estate Division Results

(Billions of Ch\$)

Operating Revenues*	137.9
Provision for loan losses	-19.4
Operating Expenses	-45.4
<b>Net Income Before Tax</b>	<b>73.1</b>
<b>Operating Revenues* / Average Loans</b>	<b>3.9%</b>

\*Net of Monetary Correction.

# WHOLESALE MARKET

*Banco de Chile executes a significant part of its financial services through the Corporate and Investments Division; focused on large Chilean and international companies, financial intermediaries and institutional investors. As of December 2008, this Division had total loans of Ch\$3,923 billion and contributed 14% of the Bank's net income before tax.*

*Thanks to the specialization of the human team and the comparative advantages obtained from the merger with Citibank Chile and the strategic alliance with Citigroup, the loan portfolio of this Division in 2008 increased by 19.9% in real terms compared to 2007.*

*Remarkable teams that maintain and cultivate fluid and long-term relations with its customers, and a products and services offer according to market requirements, have enabled Banco de Chile to be the leader in this segment.*

## CORPORATE AND INVESTMENTS DIVISION

The Division offers its services through three sub-divisions: Corporate Banking, Investment Banking and Capital Markets, and Treasury.

### Corporate Banking

Corporate Banking attends to the financial requirements of companies whose annual sales exceed Ch\$70,000 million and which require products related to short or long-term financing, payment services in Chile and abroad, simple or complex treasury products, investment banking services and project financing. Its customers include the large business conglomerates in Chile, counting the financial, commercial, manufacturing, infrastructure, concessions and services sectors. It also provides services to multinational companies, i.e. related to large companies with a global presence and which have businesses in Chile.

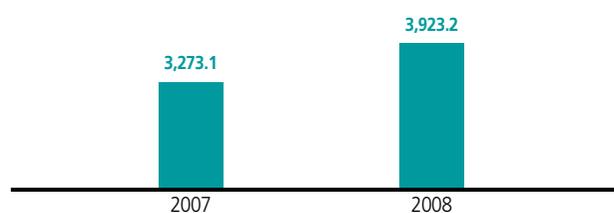
Under the concept of an integral offer and jointly with Investment Banking and Capital Markets, Corporate Banking provides a broad range of products and services to its customers in transactions like bond issues, mergers and acquisitions, complemented by products offered by the money desk or Treasury such as derivatives; all this in addition to the development of its traditional business of loans and payment products, collections and cash management in general. Corporate Banking also works intensively in introducing customers and business to the Bank's retail markets, attracting customers in a mass way for the Consumer and Retail Banking divisions.

Service quality was one of the main focuses of this Division during 2008. Following the merger, activities were centered therefore on improving customer service, with special emphasis on multinational companies that need to maintain the global connectivity level necessary for developing their businesses and operations.

By the end of 2008, Corporate Banking had grown significantly in all areas, both in volumes and in results and exceeded its targets set for the year, achieving a 19% real increase in revenues over the previous year. In fact, Investment Banking commissions were 70% above plan, while Corporate Banking produced an 88% increase in Treasury-related product revenues.

### Large Corporations Loans

(Billions of Ch\$ of December 2008)



### Large Corporations Loans Composition by Line of Business

(Billions of Ch\$)

	2008	%
Commercial	2,946.0	75.1
Foreign Trade	630.3	16.1
Checking Account Debtors	100.4	2.6
Factoring	172.7	4.4
Leasing	73.6	1.9
Others	0.2	0.0
<b>Total</b>	<b>3,923.2</b>	<b>100.0</b>

### Large Corporations Results

(Billions of Ch\$)

Operating Revenues*	103.8
Provisions for loan losses	9.3
Operating expenses	-20.9
<b>Net Income Before Tax</b>	<b>73.6</b>
<b>Operating Revenues* / Average Loans</b>	<b>2.9%</b>

\*Net of Monetary Correction.

## Investment Banking and Capital Markets

The main objective of the Investment Banking and Capital Markets Division is to satisfy the capital and financing needs and provide integral advice for the strategic decisions of our customers, providing the necessary support for accessing local and international financial markets as efficiently as possible.

The team works under the image Banchile Citi Global Markets and has vast experience in the local and international capital markets, which it has made available to its clients for advising them on a broad variety of transactions like stock exchange listings and capital increases, the sale and purchase of blocks of shares, placements of private capital, public share offerings, mergers and acquisitions, and the valuation of companies or lines of business. It also advises clients as placing agent and arranger of bond issues, syndicated loans and project financing.

This Division was formed in 2008 by the combination of the teams of Banchile Asesoría Financiera of Banco de Chile, the investment banking group of Banchile Corredores de Bolsa S.A. and experts in investment banking areas of Citibank Chile. This brought together vast local and international expertise, the leadership and experience of Banco de Chile in the country, and the supply of international products through Citibank global platform.

This capabilities combination positions the Investment Banking and Capital Markets Division as an attractive choice for clients and as the only institution in the market that offers the alternatives available in practically all markets.

Banchile Citi Global Markets is currently the leader in investment banking and capital markets in Chile and is known for its capacity and competitive strength in the creation of innovative solutions for its clients, as well as guaranteeing confidentiality and having wide experience in the diagnosis and successful closing of the transactions and business in which it participates.

During 2008, the Division obtained excellent results, taking part in the most important transactions of the year in Chile, including debt transactions for more than US\$1,930 million which included the leadership of local and international syndicated loans, corporate bonds and commercial paper; more than US\$630 million in capital transactions which included capital increases and purchase or sale of share blocks, and over US\$1,315 million in corporate mergers and acquisitions.

## TREASURY

Treasury is the business unit responsible for managing the Bank's liquidity, managing net positions subject to market risks, managing the financial investment portfolio and developing derivative products for its own or customers' hedging.

The International Area, also a part of Treasury, manages relations with correspondent banks throughout the world, ensuring the fluid functioning of international payments and obtaining foreign currency financing for the Bank itself.

In general terms, Treasury acts as an intermediary, receiving funds deposited by customers and assigning them to the commercial areas according to the maturities and conditions required by the customers seeking the loans. It also invests the surpluses and seeks in the market the additional funds needed at each time. In this intermediation process, it sets the marginal costs for purchasing and selling funds according to the risks of maturities, rates and currencies mismatch.

An important achievement of Treasury in 2008 was the effort performed by the sales teams in offering simple and structured products to non-financial companies, which amply surpassed the annual targets thanks to their capacity to detect company needs and apply all the products, especially derivatives and options, and distribute them to the large customer base of Banco de Chile.

During 2008, the Bank's International Area confirmed its close relations with correspondent banks, significantly increasing the foreign currency financial services that Banco de Chile provides to numerous customers in Chile and abroad. This significant increase, partly as the result of new customers' incorporation and operations arising from the merger with Citibank Chile, has contributed to positioning the Bank as number one in foreign trade operations in Chile.

New foreign currency financing for this purpose entered during the year from correspondent banks for a sum of over US\$3,500 million, thus permitting record levels of external coverage for its foreign trade by the end of the year and a year-on-year 48% increase in the stock of external borrowings, on highly-competitive conditions

and in a scenario of much turbulence. It should be pointed out that a part of these external borrowings have been granted at medium and long term, which provides a greater stability for the Bank in that context at the financial industry level.

It is also interesting to note the establishment of new commercial inter-bank relations, like the case of those begun with banks in Asia, now with financing facilities granted to Banco de Chile and designed to support trade with that area. The representative office in Beijing has collaborated decisively in building up relations with counterparts in China, like the obtaining of long-term financing of USD100 million from an important financial institution in the Popular Republic of China.

Similarly, new counterparties in Europe and North America lent at medium and long term at times of great international financial turbulence and renewed lines of credit from abroad despite the global liquidity tightness. This demonstrates the confidence and optimum risk perception of foreign banks toward Banco de Chile.

The volatility and instability of the markets seen since October 2007 due to the so-called sub-prime crisis in the United States, marks the pattern for a very challenging 2009, as it is probable that activity will reduce and affect the loan portfolio quality. This is why the Treasury team has, since the end of 2008, been working especially focused on strengthening its advisory role with customers in order to take the actions necessary for mitigating the effects of the financial crisis.

### Treasury Results

(Billions of Ch\$)

Operating Revenues*	130.3
Provisions for loan losses	0.0
Operating Expenses	-6.5
<b>Net Income Before Tax</b>	<b>123.8</b>

\*Net of Monetary Correction.

## **Banchile Administradora General de Fondos**

Banchile Administradora General de Fondos, a subsidiary of Banco de Chile, has been in this business since 1981 and currently manages the largest number of mutual funds in the market. Its experience has given it a leadership position in asset management for companies and individuals throughout Chile. The products available to customers include a wide range of investment options and complete advisory with respect to asset management.

It currently manages 73 mutual funds and 4 investment funds that enable its customers to diversify their investments among different financial instruments, thus taking advantage of the best business opportunities in Chile and the world. With over 245,000 investors and managed funds at December 31, 2008 of more than Ch\$3 billion, the equivalent of a 26.79% market share in mutual funds, this subsidiary ended 2008 as leader in the managed funds business.

In the last quarter of 2008, the effective average assets of the industry declined by 7.82%, but the subsidiary increased its market share from 25.41% in September to 26.79% at December 31.

These excellent results are due to efforts focused on providing an ever-more sophisticated service, with better attention and integral consultancy. The strategy of the subsidiary has been centered on upgrading the service contents, strengthening the profile and knowledge of executives in order to have a full understanding of each customer need.

The year 2008 was characterized by the creation of new products and better investment opportunities for customers. The subsidiary thus launched three new guaranteed mutual funds through which customers can access the markets of China, Brazil, Russia, South Korea and the United States. The subsidiary also initiated two new Free Investment Funds: "Inversión China" and "Inversión Brasil", and incorporated the wide range of mutual and investments funds of Legg Mason. This provided a better coverage and diversification of assets managed, plus investment solutions for customers.

In another area, Banchile Administradora General de Fondos obtained an outstanding position in the annual recognitions awarded by Diario Financiero and the Mutual Funds Association for the most profitable mutual funds in the Chilean market. On this occasion, the subsidiary obtained seven awards, being the fund's manager most recognized for the third consecutive year.

In the first prize-giving by LVA (measuring the efficiency of mutual funds in relation to their risk-return); the subsidiary won eight distinctions, again obtaining top place in the local industry. This reaffirms the commitment of the subsidiary to providing products of excellence to all its investors.

## **Banchile Asesoría Financiera**

Banchile Asesoría Financiera S.A. has an important presence in the Chilean investment banking business. Its main businesses are concentrated on long-term financing transactions through syndicated bank loans, purchases, sales, and mergers of companies, strategic associations and company valuations.

The subsidiary is well positioned in the Chilean capital markets thanks to its outstanding skills, experience and professionalism in the creation of innovative solutions for its clients, together with the fundamental guarantee of confidentiality with respect to transactions and the associated information. Banchile Asesoría Financiera S.A. also has wide experience in the diagnosis and successful closing of the deals in which it participates.

As an important result of the merger of Banco de Chile and Citibank, the team of Banchile Asesoría Financiera has the best professionals from both institutions and strengthened by the image Banchile Citi Global Markets in 2008, achieving excellent results under the wing of Banco de Chile's Investment Banking and Capital Markets Division.

Banchile Asesoría Financiera produced a net income of Ch\$4,743 million in 2008.

### **Banchile Corredores de Bolsa S.A.**

Banchile Corredores de Bolsa S.A. has been operating since 1990 and offers its clients share trading on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Customers can also execute transactions in dollars, euros and other currencies, receiving a fast and secure service. Clients can also invest for the term that most suits them through selling securities under repurchase agreements, hence optimizing the combination of profitability, flexibility and liquidity.

Banchile Corredores de Bolsa also offers consultancy and services to companies for the placement of share and bond issues, the making of public offerings for the shares acquisition, for the placement of share blocks and the listing of companies on the stock exchange. The company also provides investment advisory services to individuals and companies.

For some years now, Banchile Corredores de Bolsa has had a successful Asset Management area. In order to restructure the business model and offer the customer an exclusive service, the area was transformed this year into Banchile Wealth Management, dedicated to the investments management of high net-worth individuals, allowing access to an integral management of their assets and savings. The subsidiary thus provides a complete advisory service in all the investment and savings products in the market, both in Chile and abroad.

The results for 2008 again placed the subsidiary among the leaders in the market. The national market share in terms of volumes traded grew from 12.64% in January to 13.91% by December 2008. The volume traded in the last quarter on both the Santiago Stock Exchange and the Chilean Electronic Exchange was Ch\$1,841,627 million, which represents 30% of the total shares traded in the year, which amounted to Ch\$6,175,896 million. The market share in the last quarter was 16.5% which, compared to the average share of 13.15% for the rest of 2008, shows that the subsidiary's activity was affected positively in the last months of the year by large transactions.

During 2008, the subsidiary participated in the distribution of the bond placement of Empresa de Servicios Sanitarios del Bío Bío S.A. for UF 2.5 million, and the placement of commercial paper for Besalco S.A. for UF 0.3 million, as well as the capital increase of AES Gener S.A. for Ch\$134,090,573,838. These transactions amounted to approximately US\$215 million.

The subsidiary produced a net income in 2008 of Ch\$9,726 million.

An internal culture based on respect, integrity and commitment has been fundamental in the recognition received by the subsidiary over the last five years by Great Place to Work Institute – Chile, as one of the best companies to work for in Chile. In 2008, Banchile Corredores de Bolsa was placed among the top 10 companies in Chile, occupying ninth position.

## **Banchile Corredores de Seguros Ltda.**

Banchile Corredores de Seguros participates in the insurance brokerage market through mass networks, intermediating life and general insurance to contribute to the benefit, peace and security of its customers. The company seeks to broaden the financial services for its clients and those other mass channels, with a wide range of products, services and protection cover for both individuals and companies.

The subsidiary again showed its great dynamism and share in the insurance brokerage market in 2008, offering services, promotions and innovative products aimed and designed especially for the needs of each customer segment of the corporation's commercial divisions.

With a prominent position in the different sales channels of Banco de Chile, the subsidiary distributes its products through account executives, service area executives, investment executives, sales force and telemarketing, etc. The main purpose of these channels is the insurance products promotion.

An important event during the year was the consolidation of the Customer Service Area which, in its fifth year of participation in the insurance business, obtained outstanding results within the Individuals and Middle Market Companies Division, achieving 53,000 policies during the year and over UF 101,000 in premiums. The telemarketing channel also continued its consolidation this year with an increase of approximately 30% in policies sold, compared to 2007.

The merger of the Atlas and Banco CrediChile networks enabled the subsidiary to increase the intermediated premiums by 40% and to enter the general insurance business, which translates into a broader product range for customers.

Total premiums brokered amounted to UF 5 million, a 3% increase over 2007.

## **Banchile Factoring S.A.**

Banchile Factoring is a subsidiary of Banco de Chile, created in 1999 to widen the offer of products and services to current and potential customers of the corporation.

Since its founding, the subsidiary has held an important place in the factoring business, retaining its position of market leader with a 22.4% share and a stock of advances at December 2008 of over Ch\$248,000 million. In addition, there was more than Ch\$255,000 million distributed through the Bank's commercial divisions and booked in their loan portfolios.

The factoring business of both banks was combined as part of the merger of the corporation and Citibank N.A.. This implied a transfer of the operations, performed smoothly, which increased the stock of advances in the consolidated business. The subsidiary also incorporated staff with great expertise, their knowledge in the commercial management of multinational companies being an important contribution to the factoring business.

The volume of business of Banchile Factoring experimented growth of 6% in the stock of the year. Taking into account the entire Bank's commercial divisions, notable was the 20% increase in the number of customers working with factoring products, especially in the small and medium companies segments. This growth was largely based on the specially designed business platforms for responding to the needs of these customers. At the end of the year, Banchile Factoring had a portfolio of over 1,700 customers.

An important aspect about 2008 to mention was the larger presence of Banchile Factoring in the Bank's branch network, both in Santiago and the regions. During the year, Banchile Factoring executives were installed in the Bank's offices of Providencia, Torre Las Condes and Edificio Pacifico in Santiago. In the regions, a presence was established in the branches of Rancagua, San Felipe and Los Ángeles, which enabled them to become closer to customers for meeting their factoring requirements.

In the search for excellence in service, Banchile Factoring in 2008 organized a combination of training activities and product promotion in the Bank's commercial divisions, emphasizing and explaining the attractions of financing through factoring to account executives and providing them with support in selling the product to end customers. These activities were well received, providing important rewards to the executives of Banco de Chile for the work executed jointly with the subsidiary.

Finally, in order to provide a superior service quality, Banchile Factoring has since this year a modern platform, "Confirming online", a tool that enables large and medium size companies to offer their suppliers immediate liquidity for their invoices, without having to wait for the due date of these documents.

### **Banchile Securitizadora S.A.**

Banchile Securitizadora, a subsidiary of Banco de Chile, offers its securitization services to large and medium companies, enabling them to increase their business volumes without having to increase working capital. The securitized bonds service offered by the subsidiary transforms the securitized assets that are backed by low-liquidity assets which, through a structuring process, achieve a credit rating and can be traded as investments eligible for local institutional investors.

This financing option offered by the subsidiary is a useful tool for companies with securitizable assets, such as mortgage loans, credit cards, leasing contracts, car loans, accounts receivable and infrastructure projects.

Thanks to its experience and knowledge of the structuring and placement of Securitized Bonds, the subsidiary has remained among the most active securitizers in the market.

At December 2008, Banchile Securitizadora was managing 7 securitized funds valued at Ch\$170,215 million.

### **Other Business Support Subsidiaries**

Socofin S.A. and Promarket S.A. complement Banco de Chile's branch network. These contribute to strengthen the efficiency and global performance of the business units that serve the retail market.

#### **Socofin**

Socofin began 2008 by assuming the collection of portfolios from Banco Citibank, Atlas and Citibank Retail Banking. A special emphasis was placed during the year on deepening its segmentation strategies according to the requirements of each portfolio. This enabled it to meet its expected objectives, achieving a recovery of write-offs of Ch\$36,542 million in the segments related to the Consumer Division and Individuals and Middle Market Companies.

#### **Promarket**

Promarket is the subsidiary responsible for supporting the addition of new customers. It consolidated its work in 2008 by adding 50,060 new checking account customers through its direct intervention.

In order to achieve its set targets, its work is carried out with efficiency, organization, control and team work, thus achieving an excellent working climate and a substantial improvement in results.



## *SAFETY*

*WELL PLANNED AND DEDICATED  
WORK ENABLES INITIATIVES WITH  
ADEQUATE SAFETY MARGINS*



*RISK MANAGEMENT*  
Banco de Chile

# RISK MANAGEMENT

Risk management in Banco de Chile is based on specialization, in knowledge of the business and the experience of its teams, which permits having professionals specifically dedicated to each of the different kinds of risk. Our policy is to maintain an integrated vision in the measurement of the risks, inspired by the measurement of the risk/return of all the products, including the Bank and its subsidiaries.

The generation of this integrated information for risk analysis is vital for developing strategic planning that seeks to create value for our shareholders. It defines beforehand the maximum acceptable risk for the corporation and the capitalization required according to the future business strategy of Banco de Chile.

The senior risk authority is the Board of Directors which, through its Finance, Credit, Portfolio and Audit committees, manages the processes of identification, quantification and control of risks.

For managing risk, specific measurement systems are used according to the type of risk and are then standardized through the assignment of capital.

The specific objectives of the corporation's risk management are:

- To determine the desired level of risk for each line of business.
- To align business strategies with the established level of risk.
- To communicate to the commercial areas the organization's desired risk levels.
- To develop models, processes and tools for evaluating, measuring, controlling and correcting risk in the different business lines and areas.
- To inform the Board of the characteristics and risk evolution in the different business areas.
- To propose action plans in the event of serious deviations with respect to risk ratios.
- To ensure compliance with the various rules and regulations relating to risk management.

In order to comply coherently with the standards and regulations, the Bank actively participates in the technical committees organized by the Asociación de Bancos e Instituciones Financieras (Chilean Banking Association).

Regarding the accounting, internationally accepted standards for the trading book began to be used effective June 30, 2006. Following an extensive analysis with the regulator and the Chilean Banking Association, the Superintendency of Bank and Financial Institution (SBIF) issued in November 2007 the accounting rules to be effective from 2009 and the new formats that are obligatory from January 2008. In order to meet these changes successfully, the Bank established a series of specific projects with exclusively-dedicated teams for ensuring compliance with the established deadlines.

The strategy is based on Banco de Chile understanding that these changes have a significant impact on risk management from a commercial point of view as the standards set new rules for calculating allowances and classifying the portfolio. Being prepared for these changes has been the task of the team selected for this, which is progressing according to the approved timetable.

With respect to the new requirements contained in the Basle II international accord, the Bank continues to introduce initiatives in the technological area and the formation of human capital in order to incorporate the new concepts of requirements and assignment of capital into the commercial and operational management.

The Bank, through a representative, is also participating actively in the commission of experts which is discussing with the regulator the conditions for applying Basle II in Chile. The objectives of the original SBIF route map have been complied with, executing the promised parallel running exercises. Continuing to progress in this matter with the regulator will require a modification of the General Banking Law. However, the Bank will continue to perform capital assignment exercises under the standardized method for internal control, using the risk weightings implicit in the Basle II Accord. The results of the exercises carried out until now show us that the amount of capital is sufficient to cover the Banco de Chile businesses projected growth.

Regarding the certification process, required for Regulation 404 of Sarbanes Oxley Act (SOX) of the United States of America, which will be explained in the Operating Risks section, the central objective of the exercise has been to improve the internal controls quality and install a permanent self-testing discipline, to thus introduce at all levels of the corporation an operating risks mitigation culture. These important advances show the commitment of Banco de Chile to risk management, to its shareholders and to the building of a leading bank in the Chilean financial industry.

#### Credit Rating at december 2008

##### Chilean Rating Agencies

Instruments	Fitch-Chile	Feller-Rate
Time Deposits up to 1 year	Level 1+	Level 1+
Time Deposits of over 1 year	AAA	AA+
Mortgage-funding Notes	AAA	AA+
Subordinated Bonds	AA+	AA
Shares	1 <sup>st</sup> Class Level 1	1 <sup>st</sup> Class Level 1

##### International Rating Agencies

Instruments	Type of Rating	Current Rating
Standard & Poor's	Short-term Issuer	A-1
Standard & Poor's	Long-term Issuer	A
Fitch	Short Term Foreign Currency	F1
Fitch	Long Term Foreign Currency	A

## CREDIT RISK

Credit risk in Banco de Chile is managed through a global and unified strategy, oriented to the future and which recognizes the current and projected economic environment of the markets in which the Bank's different businesses are developed. It also considers standardized criteria in accordance with the policies that the Companies Credit Risk and Market Risk Division and the Individual Credit Risk Division propose to the Board for approval.

The strategic importance of credit risk is that it is the most important source of the Bank's capital requirement which arises when a debtor or group of debtors partially or fully defaults on their contractual obligations. Risk management is therefore inherent to the business of Banco de Chile and its management integrates each segment in which the corporation operates, oriented to obtaining an optimum balance in the relationship between the risks assumed and the returns obtained. In this way, the Bank assigns capital to each line of business, always ensuring compliance with the regulations and criteria defined by the Board in order then to have an adequate capital base for eventual losses that may derive from the credit exposure.

The Bank's credit policies and processes recognize the singularities of the different markets and segments, and grant the pertinent credit treatment to each which, in general terms, translates into the implementation of mass processes for individuals, parameters for small and medium enterprises and case by case for large companies and corporations.

Under this integrated and singular approach according to each business and in order to incorporate specialization to the credit risk management, the Bank divided the management into two divisions which report directly to the chief executive officer. These are the Companies Credit Risk and Market Risk Division and the Individual Credit Risk Division, which have an internal organization according to the commercial structure and have functional independence from these.

The Companies Credit Risk and Market Risk Division is responsible for the quality of the portfolio and optimization of the risk/return ratio for all the companies segments, from small and medium enterprises to corporations, plus Private Banking. It is also responsible for the management of the financial and market risks of Banco de Chile. On the other hand, the Individual Credit Risk Division performs a similar task for all the individuals segments including the portfolio of Banco CrediChile.

The task of both divisions includes all the processes related to their management, from admission to recovery, as well as producing the policies and strategies necessary for fully complying with the mission entrusted to them by the Board of Directors and the chief executive officer. One of the main functions of these divisions is to ensure full compliance with the criteria set down by the Board regarding credit risk.

A basic principle of credit-risk management in Banco de Chile is its proactive nature throughout the entire credit cycle (admission, follow-up and recovery). This enables us to constantly evaluate our exposures, actively manage the different portfolios and, should signs of deterioration appear, act opportune to mitigate the risks and/or reduce the exposures in order to diminish the potential risk of the portfolio.

The board takes an active part in credit-risk management, guiding management in handling this and being advised periodically about the behavior of the portfolio. The directors are also constantly reviewing the relevant credit-risk indicators by segment, product and economic sector and comparing with those of the financial system. They also participate in the credit committees where approvals of the largest credit facilities are resolved.

Credit risk and its impact on payment capacity breaks down into a combination of types of risk which should be analyzed:

**Country Risk:** is the probability of loss for a creditor caused by economic policies, exchange controls, nationalization, insolvency or payment incapacity of a country. On the other hand, sovereign risk is where the debtor is the government or governmental agency.

**Economic Risk:** is the probability of loss due to a fall in general economic activity.

**Sector Risk:** is the probability of loss that affects loans to companies in an economic sector due to its particular conditions (reduced entry barriers, bargaining power of suppliers, the intensity of competition, etc.).

**Group Risk:** is the probability of loss associated with the operation of one or more companies belonging to a conglomerate whose risk is seen to be affected by these.

**Management Risk:** relates to the probability of loss due to deficiency or mistakes in the management of the company.

**Technological Risk:** when there are technical, engineering or infrastructure factors that, although evaluated at the start, did not result in practice or could fail or interrupt the productive process causing losses to the company, affecting its payment capacity.

**Financial Risks:** possible inability to pay due to the structure of the balance sheet (assets and liabilities) and associated statement of income (revenues and costs).

- **Price Risk:** relates to the potential loss to the company from adverse fluctuations in market variables. The most important risks are those of spot prices and interest rates.

- **Liquidity Risk:** relates to the potential loss the company may face in the event of tight liquidity in the financial markets.

## Objectives of Risk Management

The Companies Credit Risk and Market Risk Division and the Individual Credit Risk Division seek to optimize the risk-return ratio for all the Bank's business areas, maintaining at all times a risk quality consistent with the levels sought, and to provide a suitable quality of specialized service for the different segments and customers.

The most important objectives of the Companies Credit Risk and Market Risk Division are:

- To propose the bank's credit-risk policies to the Board.
- To establish for each business segment the rules and procedures to be followed in the admission, approval, follow-up and recovery processes.
- To administer the rules set by the Board concerning credit discretionary limits that are delegated to Bank executives, applying conservative and prudent criteria.
- To have an integral concern about the whole credit process in terms of credit risk, commercial, service-quality and operating-efficiency aspects.
- To identify, quantify and control risks generated by credit operations, at both individual debtor level and that of conglomerates, economic sectors and geographical areas.
- To select feasible creditworthy customers, proposing limits for their operations, in order for the commercial areas to manage associated business with greater flexibility.
- To resolve on operations constituting exceptions to the credit policies.
- To develop a permanent vigilance function that enables the Bank to anticipate unforeseen events.
- To manage groups of important customers which, for macroeconomic or sector reasons, present an above-normal potential risk.
- To administer the recovery of assets with above-normal risks, directly in the case of commercial loans and through constant supervision of subsidiaries.
- To provide executive capacity in decision-taking, ensuring there is the knowledge required in the organization for the different products and segments, and to develop a credit culture that favours the maintenance of high-quality assets.
- To generate statistical models in order to generate automatic approval processes, a more focused follow-up and models for allowances for expected loss.
- To provide tools for the compatible development of international risk-management models to meet the requirements of Basle II.

## Admission Process

The analysis and approval of credits by the Bank operate with a differentiated focus according to each market segment. There are three credit-risk approval models:

- **Automated model:** directed to the mass individuals, not business-related, markets and is based on the integral automation of the processes (admission, approval, follow-up and recovery) and scoring- and behavior-based approval systems. The Bank has also developed a broad level of intelligence in the selection of customers, with a significant capacity to discriminate between subjects of different credit bases. There are therefore specific, segmented and different models for Retail Banking and Banco CrediChile. In the case of Banco CrediChile, there are distinctions for employed customers (separated into 5 sub-segments), and for independents. In Retail Banking, there are segments by activity and length of relationship with the Bank.

- **Parametric Model:** is applied to small and medium enterprises and individuals in business. For analyzing these segments, a certain level of automation and limitation is used in evaluation, with automation currently a fundamental pillar for the pre-approval processes of small companies, and a support for the potential-evaluation processes of medium companies.

- **Case-by-Case Model:** dedicated to the large companies and corporations market. Characterized by the individual expert evaluation, of the risk level, the operation amount, the business complexity, etc.

## Control and Follow-up

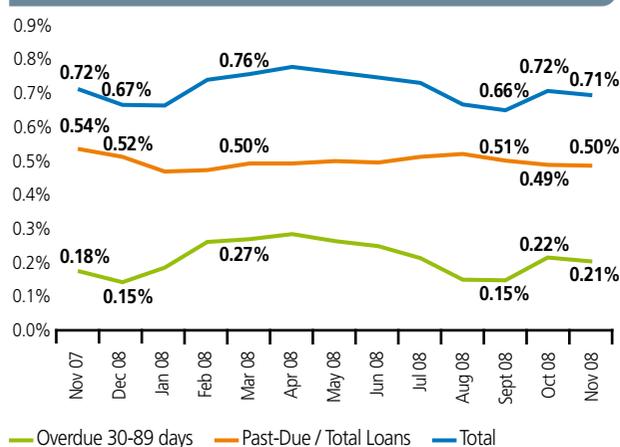
The constant control and follow-up of credit risk is the basis of a proactive portfolio management and permits an opportune risk recognition, identifying business opportunities and detecting eventual deteriorations in advance.

In the Companies market, the control and follow-up is centered on a combination of revisions, the most relevant of which are the following:

- Structured portfolio fast-revision schemes, according to the impact of specific macroeconomic fluctuations in sectors of activity, defining case-by-case actions plans.
- Constant vigilance system for detecting in advance those customers who show potential risks, agreeing specific action plans for these with the commercial areas.
- Payment arrears management, backed by predictive indicators of risk level, with follow-up and action plans in the case of the most important customers, plus management of differentiated strategies for early recovery.
- Follow-up of the conditions, restrictions and covenants imposed by the credit committee to all operations that merit it due to their importance or complexity.
- Control of exposure and share guarantee coverage, monitoring fluctuations and preparing action plans in the event of the loss of minimum cover.
- Follow-up schemes of credit behavior variables and financial figures of the companies.
- Risk segmentation strategies in the collection processes and policies, achieving progress in the better integration of the approval and follow-up processes, aligned by a same vision of customers' credit fundamentals.

Both markets are continually supervised with respect to overdue payments, financial situation and various risk indicators so that these fit within the margins approved by the management. Banco de Chile considers it basic to carry out anticipatory work in credit risk matters, being fundamental in the present macroeconomic and environmental context. In this respect, timing has been a factor of success in the Bank's proactive management.

#### Overdue Loans 30-89 Days and Past-Due Portfolio / Total Loans



#### Allowances and Expected Losses

Allowances are made for the portfolio as a result of an analysis made of the retail and company markets. For the first, the models used for estimating expected losses are differentiated between individuals without a commercial business belonging to the Retail Banking portfolio and that of Banco Credichile. This differentiation arises due to the necessary recognition of the demographic characteristics of the customers of each division, which form the objective markets of each commercial area and which imply different risk behavior, whether actual or estimated.

Each model has therefore been designed and programmed to generate an adequate and sufficient level of allowances to cover the expected losses on the loans over a future horizon of at least twelve months. This estimate is in turn made by type of product and by time overdue. The models thus produce risk matrices using the product/overdue tranche combinations as the two principal segmentation variables. In addition, the estimate of expected loss for each product/overdue payment tranche combination is made taking into account the different dimensions of information like the internal and external customers payment behavior and the global level of bank debt of customers compared to their monthly income at the time of analysis (leverage).

The consistency and coherence of the models is checked periodically through a back-testing analysis which allows the monitoring and comparison of actual loan losses with the expected losses according to the models, generating an environment of continuous feedback that enables us to improve the design of the models used.

The rating process for the companies market is linked to the approval process and the constant follow-up made of this market. The classification is made according to the risk categories set out in the current regulations of the SBIF. Banco de Chile is constantly updating the risk categories according to the favourable or unfavourable evolution of our customers and their environment, taking into account aspects of a commercial and payment kind, as well as financial information. Revisions are also focused on companies that operate in specific economic sectors that are affected by macroeconomic variables or those of their sector.

During 2008, the Bank has been implementing and testing a model based on a rating for small and medium enterprises which is already in operation throughout the branch network and is being within the evaluation and approval processes of these segments.

## Allowances Adequacy

The Bank executes an annual allowances adequacy test to check the risk evaluation processes and the expected losses estimates on the portfolio of each segment. It therefore makes migratory, random sampling and case-history evaluations to permit a high degree of confidence that the Bank's current allowances are sufficient to cover expected losses in the different segments. This analysis includes loans of normal risk and those that are sub-standard, and the result is presented to the Board which has to decide on each year allowances adequacy.

The Bank also makes additional allowances according to conservative and early-warning criteria through econometric models applied to the main economic sectors. These allowances are considered for sporadic and foreseeable events in the economic environment that might involve a potential increase in portfolio risk.

The different revisions by regulatory entities and auditors confirm that the credit risk of Banco de Chile is sufficiently assessed and that Banco de Chile has prudent credit policy processes.

## International Risk

The Companies Credit Risk and Market Risk Division is responsible for checking the quality of the Bank's cross-border portfolio and financial positions held abroad through an analysis, approval and independent follow-up process.

The present context, and bearing in mind the turbulences in the international markets during 2008, Banco de Chile intensified its management of more than 220 foreign counterparties in 70 different countries. This is related not only to a study of each financial institution but also an analysis of the political, economic and social aspects of each country involved. The frequency of analyses of some foreign corporations was increased, taking timely and effective actions in response to the different incidents that took place in the global financial market this year.

The Companies Credit Risk and Market Risk Division thus seeks to obtain a proper balance between return and risk related to these international markets, analyzing and classifying countries according to current regulations, setting maximum operating limits and limits by product type and term, which is reported twice a year to the Senior Credit Committee and ratified by the Bank's Board.

The same occurs with institutions. A global limit, terms and specific limits are set for each kind of risk, defining the permitted products and type of transactions. All this is proposed jointly with the Corporate and Investments Division to the corresponding approval level.

## Main Achievements of 2008

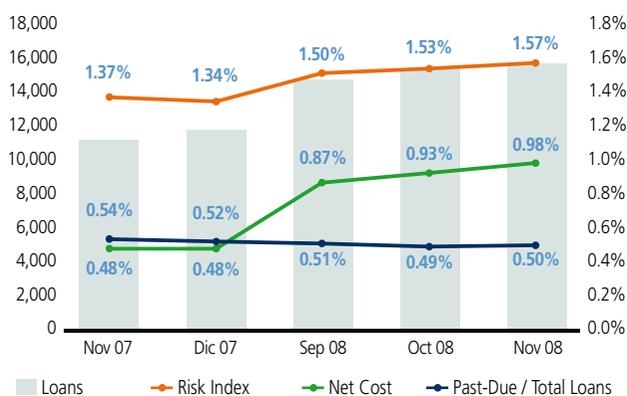
Despite the volatile and complicated national and international economic and financial environment, accentuated in the second half, Banco de Chile through a positive risk management has differentiated itself favorably among the most important players in the industry, contributing determinedly in the Bank's profitability with the consequent strengthening in the creation of value for our shareholders.

However, the year 2008 also shows an important rise in the cost of the portfolio, consistent with the environment and the industry. This augment is coherent by segment and product, being among the lowest in the system, measured as net expense to risk.

Total allowances are an adequate reserve for the recognized risks and include an additional allowance by the Bank which enables it to maintain a leadership position in the industry.

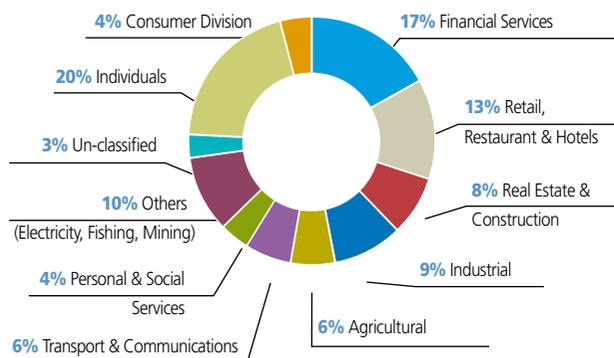
### Loans vs Risk Indicators

Millions US\$



The Bank's portfolio concentration is balanced, which best mitigates the effects of the global economic activity contraction that appeared especially in the last quarter of 2008.

### Distribution of Commercial Loans by Economic Activity



One of the sectors that will be affected is Real Estate. In this sector, the Bank has mainly financed first housing and groups with a vast experience, with cover which we believe will permit sustaining the reduction in sales turnover as we saw in late 2008.

During the year, the Bank has continued to improve and deepen its statistical methods and technological tools supporting the processes of evaluation, approval, follow-up and collection in all segments of the Companies market. The corporation thus continued to progress in developing a proactive management of the portfolio as a priority.

The initiatives developed include:

- Strengthening of the structure of the Companies Credit Risk and Market Risk Division to better support the commercial management in every segment and ensure an efficient management of risk.
- Introduction in the commercial areas of rating models for the small and medium enterprises segments, achieving an improved quality of credit evaluation and providing greater agility to the credit process.
- Revision of discretionary powers to improve and integrate the joint participation of the commercial and risk areas.
- Enhance and increase coverage in the follow-up process, in portfolio revisions and portfolio vigilance, which permits the taking of timely decisions with respect to risk management.
- Strengthening of the centralized follow-up process through more intelligent tools which permit the integral building and controlling of a wide range of data on credit behavior and financial, sector and macroeconomic information.

# CREDIT RISK

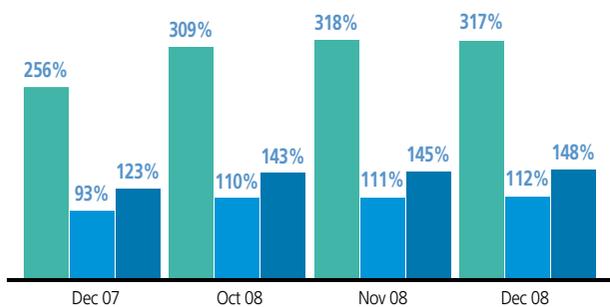
This has all enabled Banco de Chile to have a balanced commercial portfolio, with participations in all sectors of economic activity, in a balanced way and according to the different risks inherent in each one.

In the area of Companies recoveries, management in 2008 was concentrated in a specialized area, with different processes and strategies for both small and medium enterprises and for large companies.

Differentiated and segment-focused strategies in the mass companies markets were developed and introduced for fast recovery, attenuating the risk impact in the most vulnerable segments in the present macroeconomic scenario.

In the non-mass companies segments, particularly for some sectors or groups of customers affected by the present economic situation, a combination of actions and strategies has been implemented to focus follow-up and control efforts for managing and anticipating eventual risks. These include the creation of a specialized unit to manage these customers with an early-warning role for minimizing the potential risks involved. Performance is monitored by the follow-up of a high-level committee that is responsible for the agreed action plans.

## Allowances for Past-Due Loans

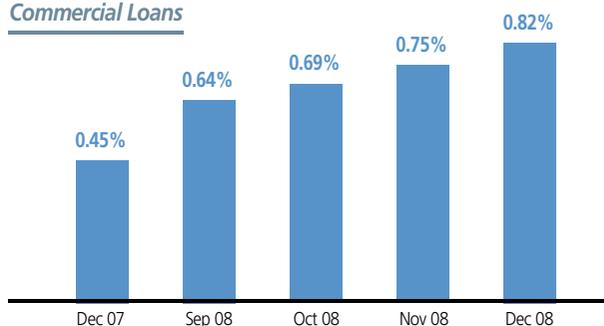


- Allowances / Past-Due Loans
- Allowances / Past-Due Loans and loans associated by RUT
- Allowances / Past-Due Loans and loans associated by Operation

Note: Includes Additional Allowances

## Gross Costs by Product

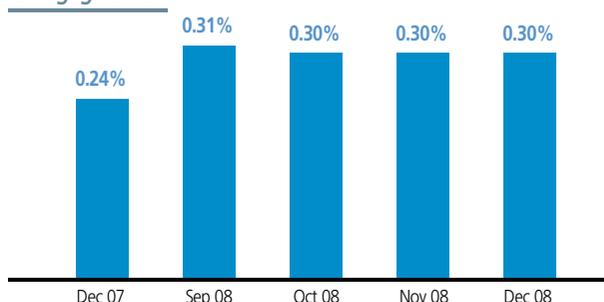
### Commercial Loans



### Consumer Loans



### Mortgage Loans



### FINANCIAL RISK

Financial or market risk is understood to be the potential loss to the Bank due to adverse movements in market variables or shortage of liquidity. Market Risk is therefore separated into: Price Risk and Liquidity Risk.

#### Price Risk

Price Risk relates to the potential loss to the Bank in the event of adverse fluctuations in the level of market variables. Market variables or factors are classified into three groups:

- **Spot prices:** estos son los tipos de cambio, precios de acciones, precios de productos básicos o también llamados commodities, precios de metales y precios de energía, entre otros. El Banco toma riesgos de precio spot de tipos de cambio e indirectamente de precios de acciones a través de su filial Banchile Corredores de Bolsa.

- **Debt instrument interest rates and derivatives percentage-yield curves:** this group classifies the interest rates of debt instruments like bank time deposits, government or central bank bonds, corporate bonds and derivative swap curves. It is also common to see mentioned in this group the so-called spreads that correspond to the arithmetic difference between two interest rates or yields. In financial jargon, the swap spread is the arithmetic difference between the swaps<sup>1</sup> yield curve of a certain currency at a certain term and the corresponding interest rate of a bullet<sup>2</sup> bond issued by the government and/or central bank of an equal term and currency. The term credit spread is also commonly used, being the arithmetic difference between the interest rate of a bond issued by a private entity and the corresponding interest rate of a bullet bond issued by the government and/or central bank of the same term and currency.

- **Volatility:** the volatility in the market affects the value of options and thus of any financial instrument that has an option component implicit. The most common options in our market are on exchange rates and interest rates, which are those that the Bank presently has in its portfolio of derivative transactions.

Consistent with this classification of market factors, Price Risk is classified into three groups:

- Spot Prices Risks
- Interest Rate Risks
- Option Volatility Risks

For example, the Bank would have an exchange rate Spot Price Risk if in its aggregate portfolio it had an amount of US dollar assets greater than liabilities in that currency, and vice versa in pesos. The Bank would therefore be exposed to the risk associated with a depreciation of the US dollar against the peso, resulting in a loss if this occurred.

Similarly, the Bank would be exposed to a rise in interest rates or have an Interest Rate Price Risk should it have assets whose maturities or interest-rate adjustments are longer than those of its liabilities. Should this occur, the interest rate paid on its liabilities rises before the interest rate it receives on its assets, generating a loss. It is important to note that the reasons for this are varied: restrictions on the amount of money imposed by the monetary authority, economists' forecasts of future rises in interest rates, credit-nature perceptions of investors making them demand a higher return on instruments issued by certain entities, etc.

Finally, the Bank would be exposed to a variation in the volatility of the peso/dollar exchange rate or have an Options Volatility Price Risk if its portfolio contains a volume of options bought on this exchange rate with respect to the options sold on this market factor which generates it a vega<sup>3</sup> other than zero. For example, the Bank would be exposed to this volatility reducing should its options book generate a positive vega, thus resulting in a loss.

1) A swap transaction is one of the most common derivative transactions. It consists of an exchange of flows between two parties according to a pre-determined payment rule in terms of the interest rates employed, dates of the exchange of flows and the term of the transaction. Generally, the exchange rule consists of one party paying interest based on a variable rate over the term of the transaction and the other based on a fixed rate over that term.

2) A bullet bond is that in which the principal is repaid at maturity while the rest of the coupons prior to maturity correspond only to interest payments.

3) Vega is understood to be the change in value of an option on any market factor as a result of a positive variation in the volatility of the return or fluctuation of the level of this market factor by 1%.

## Liquidity Risk

Liquidity Risk relates to the potential loss the Bank could face in the event of financial markets liquidity tightness. This tightness can occur either due to a reduction in available funds that negatively affect the Bank's funding capacity or a reduction in the volumes traded of the instruments held in its assets (bonds, other bank deposits, shares, etc.) or derivative instruments. Liquidity Risk is therefore split into two groups:

- Funding Liquidity Risk
- Trading Liquidity Risk

For example, the Bank would have a Funding Liquidity Risk if its aggregate portfolio contained liabilities whose maturities fall on a nearer date to that of the maturities of its receivables or assets. It would therefore be exposed to the risk that on the date of payment of those liabilities there are no available funds for continuing to fund the assets. This can mean that it has to resort to emergency funding from different entities, whether governmental or private, at higher costs than it would have obtained in normal conditions and therefore would generate a loss, or simply, in an extreme case, be incapable of generating cash to pay its obligations.

In the case of Trading Liquidity Risk, the Bank would be exposed if it had in its portfolio assets (loans, bonds, etc.) or derivatives in an amount such that their sale in the secondary markets, in the first case, or the annulment of the financial position in the second, takes a long time and therefore exposes it to unfavorable price fluctuations. Alternatively, if it wishes to sell them in just one day, buyers could reduce the price of these and thus protect themselves from this lack of liquidity. This can translate into incurring losses with respect to the prices at which these instruments are valued in the Bank's books or simply, in an extreme case, be incapable of generating cash for the payment of its obligations given the impossibility of selling these instruments, even at very low prices.

## Management of Financial Positions

Treasury, which forms part of the Bank's Corporate and Investments Division, has two areas responsible for managing the financial positions:

- Trading Management: responsible for handling the financial positions of the trading portfolio, or Trading Book. This comprises all the exchange rate positions, all the options volatility positions, some debt-instrument interest rate positions and most of the interest rate positions inherent in derivative transactions. The variation in value of all these positions is instantly reflected in the Bank's statement of income.
- Banking Management: manages the financial positions of the due portfolio, or Banking Book, and the liquidity of the whole Bank. The Banking Book comprises the rest of the assets and liabilities positions not considered in the Trading Book, and which generate interest, including some isolated positions of derivative transactions incorporated for the purpose of accounting coverage of bonds bought or issued by the Bank and all those items that generate interest for transfers of funds to the other divisions<sup>4</sup>. These positions have the characteristic that their change in value from the purchase interest rate is shown in the Bank's statement of income while the adjustment to market value is shown in the capital account.

There is also the Sales and Structuring Management within Treasury, responsible for selling traditional financial products to customers, including most derivatives and also the structuring of more complex transactions usually required by corporate customers for specific needs.

The management of financial positions is carried out by trying simultaneously to maximize the income from own positions and from selling and/or structuring financial products for customers, while adhering to a series of limits set by the regulators and internally by the Bank itself.

The internal limits are proposed to the Treasury's Finance Committee and the Financial Risk Management jointly. This committee analyzes them, and if it finds them reasonable, submits them to the Board for its approval. The amount of the internal limits should be approved according to the business strategy and a suitable risk-return ratio judged by the board.

4) There are other Bank business units which carry out lending and borrowing activities at term whose purpose is only to earn a spread with respect to the transfer interest rate they receive from Treasury. There are also other items in the Bank's balance sheet that conceptually need a transfer interest rate, like funds in checking accounts, capital and retained earnings, fixed assets, etc.

## Measurement, Control and Reporting of Financial Risk

The control and reporting of the financial risk generated by the financial positions is carried out by two areas independent from the Treasury: the Market Risk Information and Control Management and the Financial Risk Management. The first forms part of the Financial Control and Management Division and the second of the Corporate and Market Risk Division.

The Market Risk Information and Control Management is responsible for:

- Reporting the Bank's financial positions in internal formats.
- Independently verifying the observable market prices and/or rates provided by Treasury for valuing the Bank's financial positions against those effectively detected by commonly-used electronic means.
- Independently verifying the non-observable market prices and/or rates provided by Treasury for valuing the Bank's financial positions against those effectively detected through its internal price-generation models.
- Preparing a report of portfolio valuation discrepancies based on the values of the market variables provided by Treasury in comparison with that using values observed independently or using models.
- Daily generating a data base of market or model prices and/or interest rates.
- Controlling the effectiveness of accounting coverage.
- Preparing and reporting of Financial Pricing Risk regulations of the Trading Book (Reports C41 and C43).
- Determining daily the results of the business management of the Trading and Banking Books.

The Financial Risk Management is responsible for:

- Developing internal Market Risk models.
- Preparing and reporting of Financial Pricing Risk regulations of the Banking Book (Report C40) and Liquidity regulations (Report C08).
- Determining internal reports of financial positions.

- Preparing and reporting of internal Financial Pricing Risk of the Trading Book (Value at Risk or VaR).
- Preparing and reporting of internal Financial Pricing Risk of the Banking Book (Earnings at Risk or EaR)
- Monitoring the uses of Financial Risk, both of that determined through regulatory and internal models.
- Preparing and reporting of stress exercises, both of Pricing Risk and of Liquidity Risk.
- Verifying compliance with regulatory Market Risk limits and alerts and the internal Market Risk limits and alerts approved by the board.
- Reporting excesses over internal Pricing Risk limits and activation of alerts, with the consequent follow-up of corrective actions. Excesses over regulatory limits are not allowed by the regulators.
- Participating in the generation of the transaction valorization model that conform the Bank's balance, assuring that they match with the market risk reports related to those transactions.
- Participating in the preparation of Treasury transfer rate models to the rest of the Bank's units, ensuring that they are in line with market risks reports and revenue reported in the Trading and Banking Books.
- Determining the structure and proposing to the Finance Committee the level of internal Market Risk limits and alerts.
- Approving debt instruments eligible for being classified to form part of the Trading and Banking Books.
- Participating in accounting coverage programs from the Market Risk point of view.
- Determining the ranges of reasonability of trading prices in financial instruments.
- Developing internal models for the calculation of credit risk of derivative transactions.
- Developing the design of Market Risk control of the businesses of Banchile (Corredora de Bolsa and AGF) and evaluating weekly the evolution of these risks in both business units.
- Proposing Credit Risk facilities for banks and following-up their use.
- Designing the Market Risk policies and procedures for their later revision and approval by the Board.

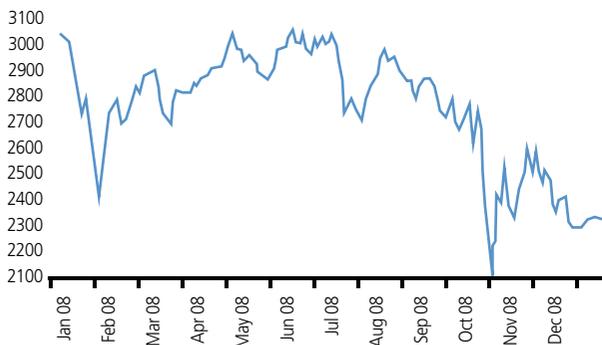
# FINANCIAL RISK

## Market Risk During 2008

It is public knowledge that during 2008, market risks in all relevant financial markets, including the Chilean, reached levels far superior to those seen in many years. Some analysts are therefore comparing the recent financial crisis with that which hit the world in 1929.

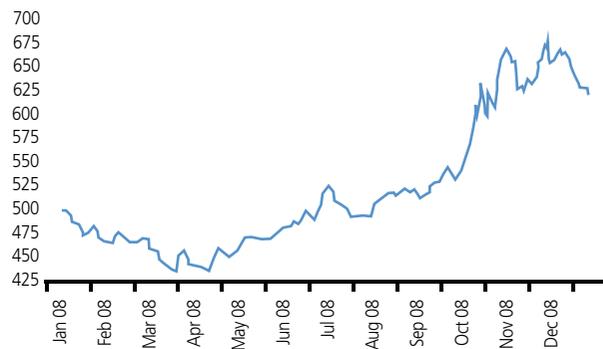
These external market conditions, added to the some particular situations in Chile, led the peso / dollar exchange rate, local interest rates, local stock market prices and the volatility of the exchange rate to suffer fluctuations never seen before. The following graphs show the levels seen in various market variables relevant to Chile during 2008.

### IPSA Stock Price Index



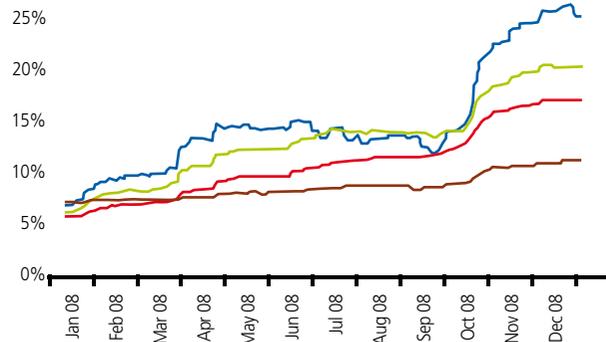
Source: WSJ

### Exchange Rate CLP/USD



Source: Banco de Chile Records.

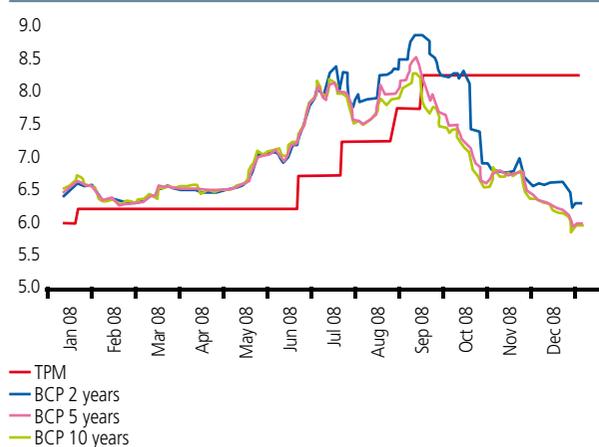
### Annualized Volatility Exchange Rate CLP/USD



— 3 months horizon  
 — 6 months horizon  
 — 1 year horizon  
 — 3 years horizon

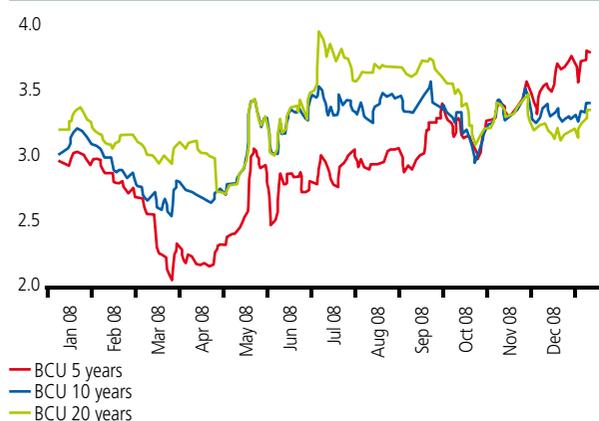
Source: Banco de Chile Records.

### Market Interest Rates – BCP



Source: Banco de Chile Records.

### Tasas de Interés de Mercado de BCU



Source: Banco de Chile Records.

The successive increases in the monetary policy rate of the Central Bank of Chile led market interest rates of instruments denominated in pesos issued by that entity (BCP) to rise significantly during the year. Market interest rates for instruments denominated in Unidades de Fomento (BCU) issued by the same entity were relatively stable.

The dollar purchase program of the Central Bank of Chile permitted the peso/dollar exchange rate to recover from the low levels seen at the start of the year. The Chilean peso then began to depreciate sharply against the hard currencies and especially the US dollar as soon as the international financial crisis became fully developed in the third quarter of the year.

The financial crisis and especially that seen in international banking, made inter-bank rates in US dollars (USD Libor) in the markets of the G7 nations rise significantly during the third quarter. The rise reached to 200 basis points in all maturities of inter-bank loans (from 1 month to 1 year). This reflected a liquidity scarcity in some banks and credit restrictions on inter-bank loans due to solvency fears of some.

Despite the healthy state of Chilean banking, the international situation increased the cost of funding in US dollars by banks in Chile, even being suspended temporarily. This translated into a spread augment between the implicit dollar interest rates on the domestic market, used in the local derivatives market with respect to USD Libor.

Inflation was another market factor<sup>5</sup> that showed large variations during the year, to a level higher than forecasts at the beginning of 2008.

Finally, transaction liquidity diminished in practically all the financial markets. In the case of private long-term debt instruments, this saw an important fall and the small volumes traded showed an important rise in credit spreads.

### Measurement of Market Risks in Banco de Chile and their Status During 2008

Market Risks measurement is carried out separately. This means that there are exclusive metrics for controlling each type of risk and also specialized control processes as the nature of these risks is completely different one to the other.

<sup>5</sup> Although inflation is not a directly-observable market factor, it is very common for the local financial market to trade as such explicitly, especially in maturities of less than two years. This is because the nominal interest rate is traded directly but not the real interest rate in these maturities in view of the impossibility of attracting funds at a negative real interest rate. The short-term derivatives market therefore trades on the nominal interest rate and inflation rather than the real and nominal interest rates.

## Measurement of Liquidity Risk

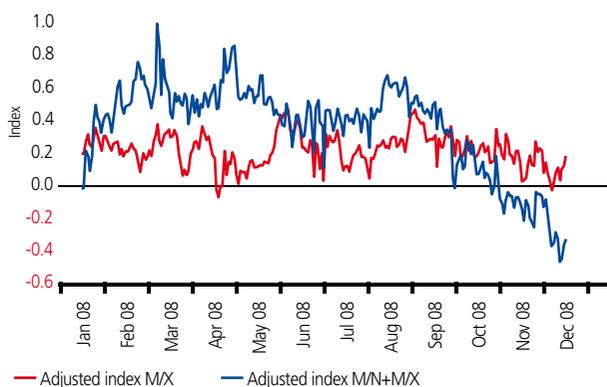
Banco de Chile mainly measures Funding Liquidity Risk. The absence of an explicit measurement of Trading Liquidity Risk is because the debt instruments portfolio of the Bank's Trading Book comprises very liquid instruments such as bonds of the Central Bank of Chile, the Chilean Treasury and short-term bank time deposits. Trading Liquidity of derivative instruments is limited through DV01<sup>6</sup> at certain specific maturities for each swap curve traded. It is not necessary to limit Trading Liquidity of debt instruments in the Banking Book explicitly as, in this case, the object is to obtain the yield on the purchase until maturity as in most cases they are bought in order to cover stable balance sheet items like balances in checking accounts or directly make accounting hedges with derivative instruments in order to obtain a spread until maturity. For 2009, it is planned to set explicit limits on the notional value of debt instruments, at least for the Trading Book.

Funding Liquidity is controlled and limited through various reports. The most general is the C08 regulatory report which simulates the projected cash flow in the next 30 and 90 days in local currency<sup>7</sup> and in aggregate foreign currency<sup>8</sup>. In the case of the Bank, the Superintendency of Banks and Financial Institutions (SBIF) authorized the use of the adjusted C08 report which differs from the regular one in terms of being able to use own models that better reflect the historic behavior of the withdrawal of funds of certain balance sheet items, like sight deposits, time deposits, the use of certain credit facilities by customers, like overdraft facilities in checking accounts and credit cards. The following graphs show the changes in the liquidity ratio during 2008, this being the ratio between the difference in liabilities and assets maturing within the respective period and the Bank's capital.

In the case of the 30-day analysis, the regulatory limit states that the ratio should not exceed the value of 1 for foreign currency cash flows (M/X) nor exceed the value of 1 for flows in all the currencies in the balance sheet, i.e. local currency (M/N) and foreign currency.

### Adjusted 1-30 Days Ratio C08

(Regulatory Limit: Ratio C08 < 1)



The evolution of the use of the C08 1-30 days ratio throughout the year shows a prudent administration in the handling of flows with projected maturities within the next 30 days and especially in anticipation of the full development of the financial crisis (the ratio is in the range of 0.4 to 0.6 from May 2008 and even below 0.2 since September 2008).

The negative value of the aggregate ratio for all currencies shows a solid liquidity position as from October 2008 as, on each of the reporting dates, the amount of assets maturing within the next 30 days would exceed, according to the models, the amount of maturities of liabilities in the same period.

In the analysis at 90 days, the regulatory limit states that the value should not exceed 2 for the aggregation of the flows taking into account all currencies.

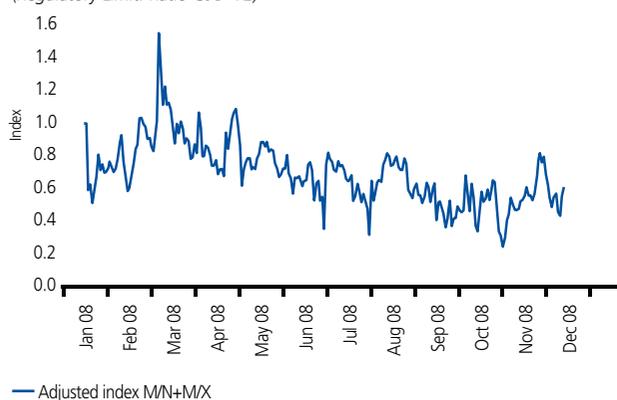
6) DV01 is defined as the change in value of a financial instrument as the result of a rise in the interest rate for valuing this of 0.01%.

7) In this case, flows denominated in pesos and UF are added, the latter expressed in pesos.

8) In this case, flows denominated in all the foreign currencies in the Bank's balance sheet are added. The Bank's activity in foreign currencies is concentrated in USD and JPY. The trading liquidity between these two currencies is practically unlimited so reporting them in aggregated form does not produce any distortion.

### Adjusted 1-90 Days Ratio C08

(Regulatory Limit: Ratio C08 < 2)



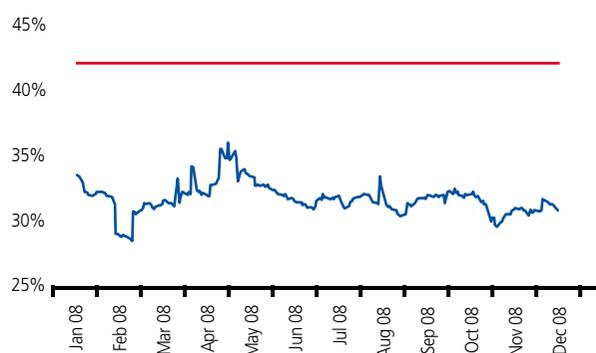
The evolution of the use of the C08 1-90 days ratio throughout the year is more stable than in the above case. From May 2008 onward, its use is only 40% of the limit, confirming the liquidity float that the Bank has managed during the financial crisis.

Internal limits were also set, and as such are not required by the supervisory organisms, that attempt to guard against the concentration of suppliers of funds and thus ensure a well-spread source of funding. The following graphs show the evolution of the two internal metrics including their respective limits.

The first group of metrics, one applicable to local currency liabilities and the other to those in foreign currency, limits the aggregate amount that wholesale investors<sup>9</sup> deposit with the Bank (investment in time deposits and repurchase agreements) as a percentage of the Bank's current liabilities in each currency. In the case of local currency, this limit is 42%, while that for foreign currency is just 20%.

### Percentage of Wholesale Funds in local currency of Total Current Liabilities in local currency

(Internal Limit: Percentage < 42%)



The use of this local currency limit throughout 2008 again shows a prudent management with respect to the concentration of wholesale funds. In any event, it should be pointed out that this kind of indicator shows relatively high values in most Chilean banks compared to banks in other emerging economies. The reason for this lies mainly in the natural concentration of savings in Chile, which enjoys strong tax incentives for individuals to keep their capital invested in funds of this kind, including pension funds.

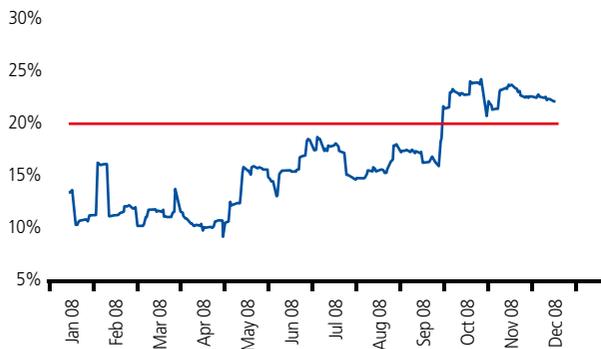
9) A wholesale investor is a creditor of the Bank that individually accounts for more than 1% of its current liabilities. In any event, regardless of the amount of its investments with the Bank, the banks, pension funds, mutual funds, investment funds and other institutional investors like entities trading securities, are always considered as wholesale investors.

# FINANCIAL RISK

The use of this limit in foreign currency is shown in the following graph.

## Percentage of Wholesale Funds in foreign currency of Total Current Liabilities in foreign currency

(Internal Limit: Percentage < 20%)

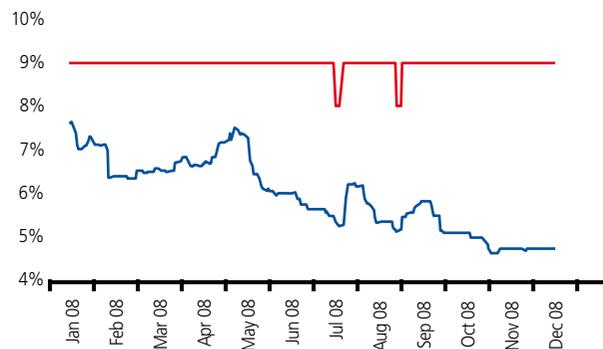


It is appreciated that, as from October 2008, this limit was relaxed temporarily, exclusively to permit attracting funds in dollars from certain specific entities at that time and maturing in December. This exceptional transaction was authorized in order to ensure a higher level of liquidity in dollars during the most critical weeks of global liquidity, expressed in restrictions on financing by some foreign entities.

Another two metrics are also controlled that limit the concentration of funding. One is a limit on the largest provider of funds in local currency so that individually it may not exceed 9% of current liabilities in that currency, and the other that the largest provider of funds in foreign currency does not individually exceed 14% of current liabilities in that currency. The evolution of these metrics throughout 2008 is shown in the following graphs.

## Percentage of Funds from the largest provider in local currency with respect to Total Current Liabilities in local currency

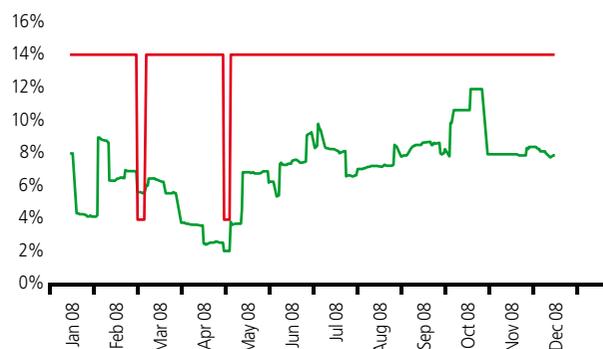
(Internal Limit: Percentage < 9%)



It can be seen that the concentration in local currency has reduced over time while that in foreign currency has shown a slight rise due to the reasons explained above.

## Percentage of Funds from the largest provider in foreign currency with respect to Total Current Liabilities in foreign currency

(Internal Limit: Percentage < 14%)

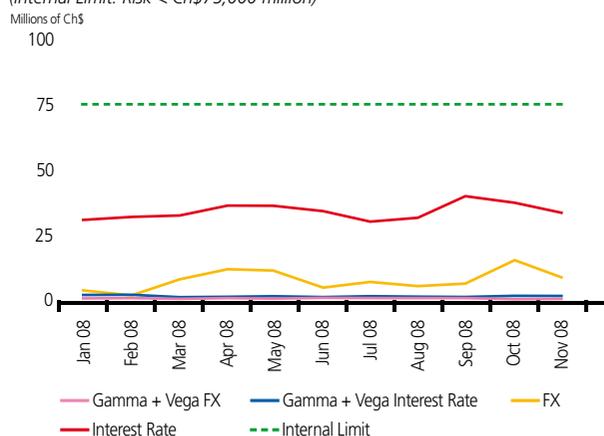


## Measurement of Pricing Risk

The measurement of Pricing Risk is made through various reports and separately for the Trading Book and for the Banking Book. For the first, this is done through the standardized regulatory report (SBIF report C41) which permits an estimation of the potential loss to the Bank in the event of an adverse movement, with a certain level of confidence about the relevant financial variables used to value the transactions comprising this book. This metric is calculated from tables provided by the SBIF and which are basically taken from the Basle Accords for the standardized measurement of this risk. The following graph shows the evolution of this risk throughout 2008 and measured against the internal limit of Ch\$75,000 million<sup>10</sup>.

### Trading Book Pricing Risk (SBIF Standardized Methodology)

(Internal Limit: Risk < Ch\$75,000 million)



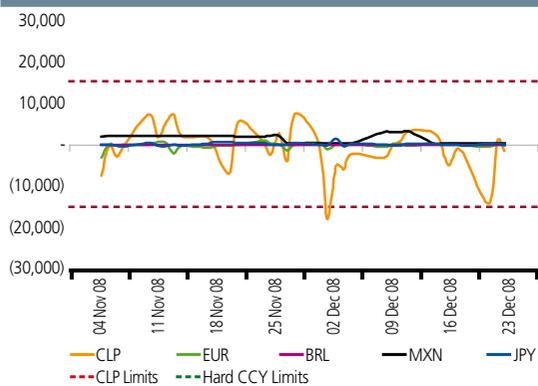
The interest-rate positions are those that most contributed during the year to the generation of pricing risk, particularly those related to derivative transactions. Interest-rate swaps, both in pesos and in UF, were the largest generators of pricing risk. Following in importance is that generated by exchange rate positions and, much farther behind, the risk generated by small positions options in exchange rates and interest rates that the Bank held during the year.

In addition, internal limits of net exchange-rate positions are being set for the Trading Book, plus limits of sensitivity of the positions in interest rates and vega in options. The following graphs show the positions held in these market factors during the last months of the year.

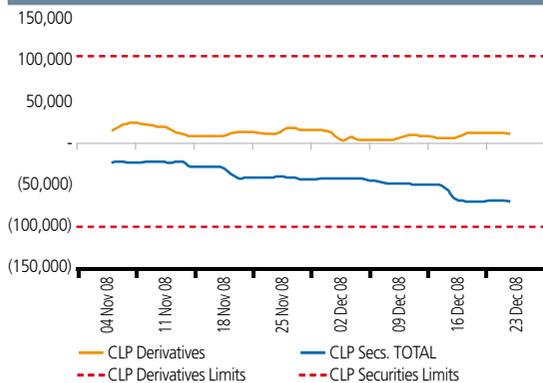
<sup>10</sup> The SBIF does not set any formal limit for this risk but a global one that includes Market Risk, the 10% of Risk-Weighted Assets and, in the future, Operational Risk. The sum of these two (three in the future) should be less than once the Bank's capital.

# FINANCIAL RISK

**Exchange Rate Position (USD)**



**DV01 Peso (measured in USD)**



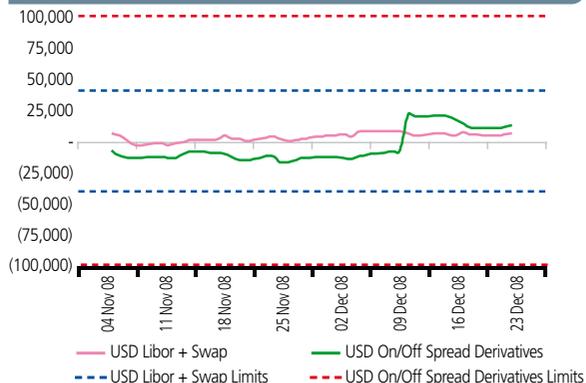
The graphs show that small exchange-rate positions were held during the last months of the year (no greater than 20 million dollars against pesos and no more than the equivalent of 10 million dollars in other hard currencies against US dollars).

A position has also been held in the USD Libor curve of no more than 20,000 dollars of DV01 (see graph DV01 Spread USD & USD Libor). This equates to approximately having derivative transactions permanently in this curve, on which we pay fixed rate for a year for an amount of 200 million dollars and receive a 1-day floating rate for the same amount. The position of the domestic dollar spread with respect to USD Libor (see graph DV01 Spread USD & USD Libor) has been maintained at around 25,000 dollars of DV01.

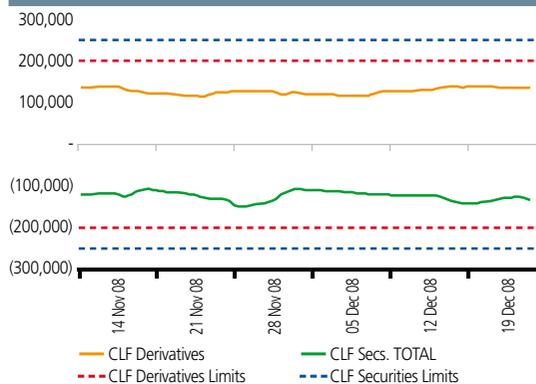
In contrast, the peso curves show a greater but modest use of derivatives (graph DV01 pesos) and growth in positions in bonds (graph DV01 pesos).

The positions held in the UF curves, both in derivatives and debt instruments (yellow and green lines in the graph DV01 UF), are more important than in the previous cases. In each of these, the DV01 exceeds 100,000 dollars in absolute terms but in the aggregate the exposure is low (one cancels out the other). This reflects that in the last months of 2008, the Bank has been positioned in the swap spread in UF.

**DV01 Spread USD & USD Libor (USD)**



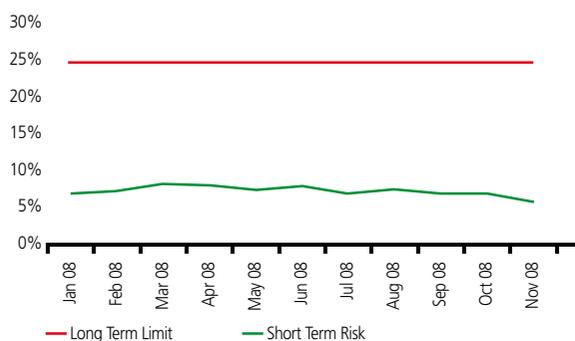
**DV01 UF (measured in USD)**



Finally, the following graphs show the interest-rate risk of the Banking Book, which is obtained through a standardized regulatory report. This permits estimating the potential loss to the Bank in the event of an adverse movement, with a certain level of confidence. This metric is calculated with tables provided by the SBIF for the standardized measuring of this risk. The following graph shows the evolution of this short and long-term risk throughout 2008, and measured against the internal limit of 25% of the monthly operating margin and 25% of the Bank's effective equity respectively.

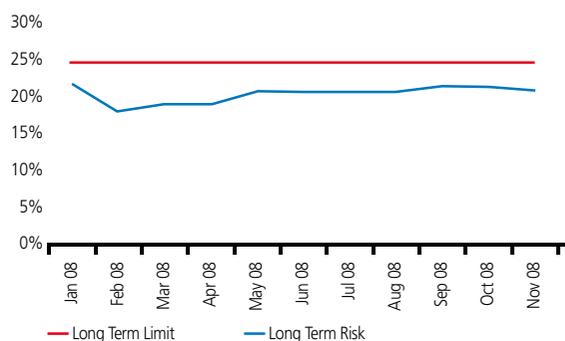
**Short-Term Banking Book Pricing Risk, SBIF Standardized Methodology**

(Internal Limit: Use < 25% of Monthly Operating Margin)



**Long-Term Banking Book Pricing Risk, SBIF Standardized Methodology**

(Internal Limit: Use < 25% of Monthly Operating Margin)



In both cases, the risk use is very stable, reflecting the very stable nature of the balances of the Banking Book and with a suitable level of space for potential new opportunities.

## OPERATING RISK

The Bank has an operating risk management structure according to the needs of the business, the size of the organization and the multiplicity of processes and systems. The Operating Risk Area therefore is responsible for managing and reducing operating losses through a continual operating risk management process and for the quality of the processes, thus ensuring an efficient and effective control environment, while always adopting the criteria required by the SBIF and the Basle Committee on the corresponding capital adequacy.

Operating risk has been defined as the risk of losses resulting from inadequate or faulty processes, staff, internal systems and/or information technologies; or due to external incidents, including legal risk. This definition is in line with that of the Basle Committee and is based on Chapter 1-13 of the Regulations of the SBIF with respect to "Classification of Performance and Solvency", included in the Basle II Accord.

In compliance with these regulations, Banco de Chile has adopted this referential framework and initial outlines as internal regulations for carrying out a proper management of operating risk. This regulation conditions the degree of compliance to the result of the annual self-evaluation process of the Bank's performance and solvency, thus permitting progress in establishing the standard at the global level.

The Bank, being subject to the supervision of the Securities and Exchange Commission (SEC) since 2001 and as it is registered on the New York Stock Exchange (NYSE) through the American Depositary Receipts (ADRs) program, has developed the necessary activities to comply with the new regulations established annually in Section 404 (Sarbanes-Oxley Act) for the SEC. These set out the obligations of companies registered and quoted on the United States stock market to report on their internal controls that directly affect the financial statements.

As a result, Banco de Chile has been certified by the external auditors regarding the effectiveness and operation of the internal controls related to the financial statements. This evaluation was made during 2007 and completed in 2008. The certification process comprised three stages of evaluation, the first a self-evaluation of the controls, implementing a constant discipline in this respect for introducing a culture of mitigation in the event of operating risks. Secondly, there is an independent revision of controls, and lastly the revision made by the external auditors who certify this process in an integrated form with the evaluation of the financial statements. This internal control self-evaluation, related to the financial reports, permits having a concrete processes base for compliance with Basle II and is a continuous process which is already in the evaluation stage for 2008 that ends in 2009.

## Objectives of Operating Risk Management

Five lines of work have been identified in order to have a more efficient administration and management of operating risk: security of information, control of operating risk, business continuity, fraud prevention and control of the quality of information technology developments. These functions are centralized in the Operating Risk area, reporting to the Operations and Technology division which reports periodically to the Directors' and Audit Committee.

The following are the main objectives of the management and administration of operating risk:

- To generate an operational risk action framework that covers all the critical process transversally.
- To identify the critical processes and transactions that affect the operations and financial statements of the Bank and its subsidiaries.
- To identify present and potential operating risks, based on a constant analysis, in order to generate indicators that measure and set levels of mitigation, and monitoring the exposure to them. This makes for an effective operating risk management for eliminating, reducing, transferring or accepting operating risks.
- To identify the sources of information on operating risks to make possible the autonomy of risk evaluations with respect to the areas originating them, permitting the preparation of joint action plans to mitigate the risks identified.
- To continuously improve the operative processes and control mechanisms and monitoring to minimize the organization's operating risks and reduce the use of capital for this concept.
- To take an active part in the evaluation of new products, services or processes that have an impact on the Bank's operations.
- To develop a combination of mitigation actions in order to reduce operating risk and losses from external frauds, like authorizations of customers for credit card transactions.
- To monitor external variables that affect operating risk, like fraud in the means of payment or funds transfers affecting customers.
- To produce a combination of procedures and action plans for being prepared to face contingencies, minimizing the effects that these have on business performance.
- To produce a structured computer program evaluation process to be used by the organization's different users, in order to reduce potential mistakes resulting from deficient designs.
- To generate a standard testing base in order to be able to carry out more of these with the same degree of assertiveness.
- To generate an information security regulatory framework, producing policies, rules and procedures leading to achieving a consciousness in the organization regarding the confidentiality of information and control mechanisms for improving the availability and reliability of the information.

## Operating Risk Management

The central area for the management of operating risk is the Directors' and Audit Committee, consisting of three Bank's directors and the chief executive officer.

This committee relates to the internal committee responsible for different kinds of risk, like the Fraud Prevention Committee, Ethics Committee and the Security Committee, and also to representatives of the organization's transversal functions like Human Resources, Technology, Administration and Legal.

The most important activities of the Operating Risk Area with respect to the administration and risk management are:

- To propose to the Directors' and Audit Committee policies and strategies for the proper administration and management of operating risk.
- To ensure the correct implementation and compliance of operating risk policies and strategies.
- To introduce the operating control model most suitable for the Bank.
- To maintain data bases of events of losses due to operating risk.
- To lead the development of initiatives and/or projects of an operational nature to mitigate risks.
- To control and monitor operating risk in outsourcing companies for services critical to the Bank.
- To coordinate in a centralized way the development, maintenance, training and testing of business continuity plans.
- To participate in the evaluation of new products and services, processes, activities and systems.
- To analyze exposure to operating risk of the Bank's critical business processes, establishing suitable control and risk mitigation measures.
- To provide consolidated performance information to the Directors' and Audit Committee.
- To promote the information security regulatory framework.
- To ensure that access to critical information is monitored continuously.
- To carry out the necessary tests of programs developed for the organization in order to avoid mistakes in the daily operations.

# OPERATING RISK

## Main Achievements of 2008

- Certification by the external auditors with respect to compliance with Section 404 of the Sarbanes-Oxley Act, relating to 2007 (table 1).

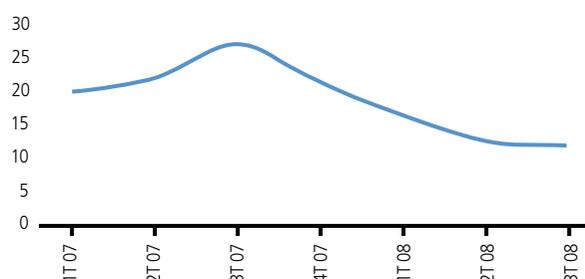
### Operating Risk

	Processes Evaluated	Sub-processes Evaluated	N° of Controls Evaluated
Banco de Chile	45	159	571
Subsidiaries	62	171	593

- Evaluation of internal controls at the level of senior management, integrating operational and technological risks related to that level.
- Evaluation of all the critical processes, generating a ranking of design efficiency and the effectiveness of the defined controls.
- Evaluation of the technological processes that transversally support the critical processes.
- Evaluation of external companies that support the Bank's critical processes.
- Evaluation of processes and sub-processes with respect to the impact and frequency of the risks, based on three perspectives: customers, regulatory and financial.
- Qualitative evaluation of the risks, identifying action plans and proposals for improvement for the critical processes.
- Incorporation and redefinition of sub-processes for the evaluation that affect both Operational Risk and the Bank's financial statements.

- Incorporation of the bases of the quantitative risk management model by line of business, by recording centrally the incidents of risk and loss.
- Integration of qualitative and quantitative evaluations, reducing information processing times for the units evaluated.
- Evaluation of the operational risks associated with the processes of new products and/or services.
- Improvement of the follow-up process and accounting for write-offs, thus reducing processing times.
- Operation of the fraud prevention model for credit cards with management support from Nexus, permitting a reduction in frauds for this product. This work permitted reducing from 26 to 12 basis points, which in monetary terms meant a reduction of the fraud amount over US\$600 million.

### Basis Points Evolution



- Administration of the management indicators of the fraud prevention alert system, which have permitted reducing the fraud rate.
- Operation of the predictive models, based on the monitoring of unusual behavior parameters in the use of means of payment, permitting the anticipation of Bank frauds and avoiding greater losses.
- Carrying out of a series of certification projects for reducing the impact of operational risk with the start-up of new operation systems and models, like the implementation of IFRS and integration of Atlas-Banco CrediChile.
- Incorporation of Banco CrediChile into the quality control certification of Banco de Chile, centralizing this process and generating savings for the organization.
- Installation of "Quality Center" as a support tool for the certification, which will permit optimizing the certification process, generating standard tests for systems and products.
- Establishment of an Independent Control scheme for checking that those processes producing risk situations through the bad use of Confidential Information are made according to the approved Information Security Policies.
- Adaptation of the Bank's Information Security Policy to the situation resulting from the merger with Citibank Chile, incorporating the best practices of both banks.
- Issue of a new Business Continuity policy.
- Establishment of the Business Continuity Committee, formed by representatives of all the units that provide transversal services.
- Executing Business Continuity exercises and tests, required for both the local technological areas and the suppliers of applications and external services, achieving a significant participation of the business and specialized support units (Help Desk, Technology, Security and Administration, etc.).

## *PROXIMITY*

ALWAYS COMMITTED  
TO OUR COMMUNITY





## SOCIAL RESPONSIBILITY

### Banco de Chile

*Consistent with its objective of contributing to society, Banco de Chile has consolidated its position as an active entity in achieving greater welfare for the community through different areas of action like the strengthening of solidarity values, opportunity generation, integration and the promoting of an education of excellence.*

*This chapter sets out the different actions that Banco de Chile took during 2008, showing its strong social responsibility with its staff, the institution's engine; with the community in which it operates, and with its customers, who recognize its services of excellence and reward it with loyalty and preference.*

# OUR COMMITMENT WITH THE STAFF



*The team of over 14 thousand people who work in Banco de Chile are the fundamental component that drives the corporation's successful daily activities. One of the strategic pillars of the institution is human resources management, promoting, strengthening and developing the skills of the entire Bank's staff.*

*In line with this vision, the Bank makes a constant effort to recognize the human, intellectual and social capital of everyone building up the corporation's team, respecting their ideas variety, cultures and abilities, a crucial aspect in 2008 when a large part of our efforts were focused on the post-merger cultural integration with Citibank Chile.*

## GO FOR A "CHILE QUE CRECE"

Banco de Chile has a total of 10,923 staff, plus a further 3,653 people working in the Bank's subsidiary companies, representing increases of 26% and 24% respectively over the year before. This is explained by the merger with Citibank Chile which took place during the first half of the year and implied the new team building activities with the better talents.

- Of the total staff, 49% are men and 51% women. 71.5% of this team work in the Metropolitan Region, while 28.5% are spread over the rest of the country.
- The average age is 35.8 and the average length of service is 6.7 years.
- Staff union membership is 50.5%.

## Life Quality

Contributing to the staff life quality is the basis for Banco de Chile human resources management, in order to attract, develop and retain suitable and well-prepared people committed with the institution and its values. The strategy consists of contributing to their working, personal and family lives in aspects as important as professional development, health, recreation and education. Consistency in this work, which has been performed with this focus, enables us to provide initiatives that strengthen the staff's commitment with the corporation. During 2008, more than 12,000 people took part in these.

## Health Promotion

Developing healthy lives and generating a health-care culture are some of the values that the Bank is constantly reinforcing among its staff and their families. It has a health promotion program that includes different initiatives for teaching feeding, nutritional, first aid, and controlled physical exercise habits.

One of the activities that attracted the largest participation was the influenza vaccination program that benefited 6,836 people.

Among the health-care promotion activities was the increase in staff participation in therapy for heavy smokers, up 38.1% in relation to 2007. We also managed to extend among people below 30 years of age the importance of cardiovascular health-care through free preventive check-ups, growing from 107 in 2007 to 689 persons during 2008.

## “Chile Mujer”

Concerned for the women working for Banco de Chile, “Chile Mujer” is a program that arranges activities specially focused on women in professional, personal and family matters.

During 2008, this program was concentrated on reinforcing a consciousness of the importance of women's health care. A free integral check-up was provided which achieved a 57.7% increase in participation compared to 2007, involving 988 women. A program was also added on sexual education, focused on teenage daughters of the Bank's staff, which attracted the participation of 103 girls.

## “Orienta” Program

In addition to the psychological, legal and financial guidance provided by the “Orienta” program, in 2008 social attention was provided to support staff. The orientation was also segmented to incorporate departmental supervisors in specific matters on the team managing. A series of conferences were given to supervisors in which 599 employees took part.

Participation increased by 45% over 2007 in the workshops on family-related matters.

## Housing Program

Banco de Chile has a housing program to provide complete guidance to staff in obtaining financial assistance and all the legal processes linked to the purchase of a new house. This program was developed in a joint effort with the Bank's unions, motivating a savings culture for obtaining credit facilities. This yielded high-quality results during 2008 with a 10% increase to 225 in the number of individuals who have begun a housing savings plan.

# OUR COMMITMENT WITH THE STAFF

## Adolfo Rojas Gandulfo Scholarship

To encourage good education among its staff, the Bank provides assistance for the schooling of employees' children showing outstanding performance. In addition, it also grants the Adolfo Rojas Gandulfo Scholarship to the child of an employee obtaining the highest average marks in the national university entrance examinations. The scholarship in 2008 was obtained by Cristóbal Puelma Garcés, the son of Álvaro Puelma Sáenz, chief lawyer in the Legal Counsel area, who, with his 796.5 points, will join the Universidad Católica de Chile to study civil industrial engineering.

The Adolfo Rojas Gandulfo Scholarship finances the costs of enrolment and fees for the complete university career chosen by the youngster, plus transportation and meal costs, while maintaining the requirement of academic excellence. So far, 10 young sons and daughters have won the recognition and studied courses in civil engineering, medicine and mathematics in Chile's most prestigious universities, like Universidad Católica, Universidad de Chile and Federico Santa María.

## Nursery and Kindergarten

This benefit consists of a monthly cash contribution to staff with children of up to 2 years and between 2 and 4 years of age respectively. The nursery benefit also includes transportation. An average of 362 employees used the nursery benefit during 2008, and 231 utilized the kindergarten assistance.

## "ChileActivo "

This program provides a series of recreational, sporting and cultural activities for all the corporation members and their families.

Chileactivo in 2008 attracted the participation of 959 persons in adult sports activities and 484 children in the seven formative schools, plus 175 people in the 10 cultural workshops.

The number of members of Chileactivo is 5,760, representing a 50% increase over 2007.

### General Program Results

Program	Coverage	2008	2007	2006	2005
Health promotion	National	6,385*	3,273	2,182	1,869
"Orienta" Program	RM-II-IV-V-VII-				
	VIII-IX-XIV-X	1,705	1,672	1,379	909
Women & Family Program	National	3,713	2,242	1,954	972
Housing Program	National	607	922	874	n/a
<b>Total</b>		<b>12,253</b>	<b>8,109</b>	<b>6,389</b>	<b>3,750</b>
General Preventive	National	n/a	5,026	n/a	4,457

\* The overall total does not include the vaccination program which benefited 6,836 staff.

## Many more Benefits

- **Life Insurance:**

The Bank provides its entire staff with life insurance coverage, being the insured figure 24 times the employee's income, with a minimum of UF 1,250, with additional coverage for disability (2/3) and accidental death.

- **Health Insurance:**

The complementary health insurance cover is a cost-free benefit for the employee, which the Bank grants to its entire staff and considers an average of 80% of differences not included by the respective regulatory health plan. This insurance provides an annual amount of UF 500 for the employee, each child, and spouse registered as beneficiary.

As of December 2008, the total persons insured were 10,785 but, with the addition of family members with rights to the benefit, this increases to 23,971 beneficiaries. If we include the Bank's subsidiaries, the total staff insured reaches 11,078 and, with their families, 24,547 beneficiaries.

The volume of complementary insurance reimbursement requests were 88,910 or 91,402 if the subsidiaries are included.

- **Dental Insurance:**

With an annual amount of UF 44 per family group, the dental insurance provided by the Bank assures 80% of the reference professional fees, which corresponds to 50% of the tariff unit of the Institute of Deontologists (UCO).

During 2008, the Bank's employees have requested 14,905 reimbursements or 15,253 if the subsidiaries are included.

- **High Expense Insurance**

With coverage of UF 2,000 per employee, each child, and spouse registered as beneficiary. This insurance is available immediately after the complementary health insurance amount is exhausted, to support staff in meeting major health expenses.

53 persons made use of this benefit in 2008 and 303 requests were paid.

Following the merger, the former Citibank staff has similar benefits under the current collective agreement.

# OUR COMMITMENT WITH THE STAFF

## GO FOR CONSTANT EMPLOYEE DEVELOPMENT AND PROGRESS

### A Team Formed by the Best Talents

Human resources management gives great importance to the development of internal and external selection processes in order to attract the most talented in the appropriate positions. Banco de Chile follows a policy of rewarding the merit, performance and excellence of its staff, strengthening internal mobility through transparent procedures and clear definitions to apply for vacant or new positions. Corporation staff therefore attained new positions and greater responsibilities within the organization in 2008, according to their skills, potential and performance.

During the year, there were 64 internal invitations for applications to meet the needs of vacancies in different jobs and 1,173 persons were promoted.



### Development of More and Better Skills

The integral development of its staff is one of the Banco de Chile's constant goals. This is why there is a permanent program to provide its staff with the tools and skills necessary for performing their work with excellence and developing themselves professionally according to the requirements of business areas and the corporation.

In addition, as a result of the merger, the Bank has performed an intensive training program for each member of the staff to have full knowledge of matters related to the corporate and specific plans of each division.

During 2008, training efforts implied 450,868 hours, of which 73% were in classrooms and 27% corresponded to courses provided through e-learning, the computer platform for distant training. These activities were attended by 27,278 persons-course, 67% in the Metropolitan Region and 33% in the rest of the country.

At the same time, the Bank regularly promotes specialized diploma courses designed by prestigious Chilean universities especially for the Bank's staff, according to each business area requirements.

The following courses were given in 2008:

- *Diploma in Business Management* in the Universidad Católica de Chile for 45 participants from the Individuals and Companies Banking divisions, to develop skills and abilities for a performance of excellence in the financial area and to understand the competitive scenario, the industry's analytical tools and how to apply these to real business.
- *Diploma in Marketing* in the Universidad Católica de Chile. This began in 2007 and finished in 2008. It was attended by 44 executives and supervisors of the Marketing Division in order to strengthen knowledge in the design of marketing strategies, manage their implementation, align the organization's capacities to the market and consumers, etc.

### “Alto Vuelo” Leadership Program

Banco de Chile continued to work and strengthen in 2008 its “Alto Vuelo” program for supervisors, consisting of different initiatives that seek to reinforce leadership of excellence in these staff, making them leaders who motivate their teams, are committed to personal development and act according to the customers’ needs.

The program contained a variety of subjects and workshops focused on providing each person with the skills and knowledge needed for their organizational role, years of experience and their results in performance and promotion evaluations. The program included the following activities:

- **Take Off:** workshops for new supervisors according to the contents of the upward evaluation. A group of 108 team leaders took part in and learned about basic practices gathered from the daily routine.
- **“Despegue” Program:** oriented to develop and support competences for supervisors who require abilities strengthening, based on their performance and upward evaluations. During 2008, work was performed with 19 supervisors from Banco CrediChile and 24 from the Individuals and Middle Market Division.
- **Leaders’ Thursdays:** program of 5 conferences with outstanding academics, businessmen and senior executives. 281 people took part in this program.
- **“Alto Vuelo” Magazine:** Monthly electronic publication addressed to supervisors and prepared by them. It offers a combination of good practices of the Bank’s successful leaders.



# OUR COMMITMENT WITH THE STAFF



*Developing and applying policies for strengthening a culture of commitment and excellence among its staff has been the Bank's strategy. An important part of this effort has enabled the subsidiary Banchile Inversiones to continue improving its ranking by the Great Place to Work Institute, rising from 14th place to ninth in 2008 as one of the best companies to work for in Chile.*

## GO FOR A GREAT PLACE TO WORK

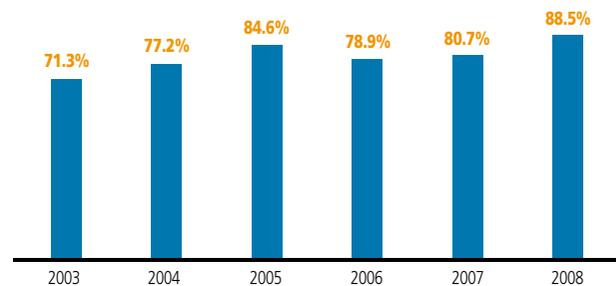
### Work Climate Survey 2008

With average 92% participation, the Bank carried out two work climate surveys in 2008. The objective, as always, is to know and analyze the internal employee satisfaction to establish the plans necessary for strengthening the working environment of the different teams and areas.

The result in October 2008 was 88.5%, which represents an improvement of 12.7 percentage points compared to the survey made in April 2008 and more than 8 percentage points compared to the result for 2007. This figure has special relevance as this was a year impacted by the merger in January 2008, with the reorganization periods and instability atmosphere that these processes bring, and confirms the upward trend maintained over the last few years. We can thus state that during the second half of 2008, the possible adverse effects of the merger on the internal climate had been overcome.

### Global Work Climate Survey (net)

(Maximum Score 100%)



## Social Recognition Program 2008

As in the four previous years, Banco de Chile organized the Social Recognition Program which rewards the attitudes and values that show daily the commitment and excellence of the teams and people, providing an exceptional contribution to the institution and colleagues.

The program is a management tool focused on improving performance and reinforcing relations between the Bank and its staff. During 2008, the initiative highlighted different aspects each month like commitment with the corporation, innovation and contribution to forming teams of excellence.

The supervisors and staff were familiarized with the effective use of this tool for praising their colleagues. In 2008, 88% of staff perceived that their supervisors recognized their exceptional conducts, which positively affected the work climate.

The organization organized two special reward activities in 2008:

- *Recognition Log-book*: Agenda delivered to the supervisors with congratulation cards and feed-back guidelines for managing the performance of their work teams.
- *Cirque Du Soleil presentation*: In order to reward staff for good performance and high potential, the Bank gave special tickets for an exclusive Cirque Du Soleil show.



## Compensation

Rewarding staff for the work executed is an important part of the Bank's human resources management. The purpose of this policy is to always ensure internal fairness and external competitiveness.

Income, together with the benefits provided by the corporation to its staff, is a form of compensating the efforts made and, during 2008, apart from the 100% cost-of-living adjustment for all staff, an important percentage of the staff received salary increases for merit and promotion. In addition, a bonus for outstanding performance was given to employees showing extraordinary contributions to their position responsibilities.

# OUR COMMITMENT WITH THE COMMUNITY

## GO FOR THE REHABILITATION AND INTEGRATION OF THE HANDICAPPED IN CHILE



*Since its origins, Banco de Chile has been notable for contributing to the country's development, providing support throughout its history to important projects that have significantly contributed to national growth. The Bank has also assumed its responsibility to society, providing important resources and making important efforts in social investment.*

*Today, Banco de Chile's commitment to the community is focused on the areas of rehabilitation and integration of the disabled, and education of excellence. Apart from that, the institution in 2008 has given its support to other important initiatives that have contributed to the development of our country and the enterprises of thousands of Chileans.*

### Thirty years Together with the Fundación Teletón



The commitment of Banco de Chile with the rehabilitation and integration of the handicapped in our country goes back thirty years. Through its permanent support for Fundación Teletón and all the activities that promote the development and integration of disabled people, Banco de Chile has contributed to forge a common history which has enabled the construction of ten rehabilitation centres throughout the country.

Arica, Iquique, Antofagasta, Coquimbo, Valparaíso, Santiago, Talca, Concepción, Temuco and Puerto Montt currently attend more than 24,500 patients of Fundación Teletón. Approximately 68,000 handicapped children and young people have been rehabilitated since 1978, being important examples of surmounting and perseverance.

Banco de Chile reaffirms its commitment with our country's disabled in every fund-raising campaign, making available its infrastructure and technology, and coordinating the on line collection system throughout the country, in order to provide information on deposits and collect safely and efficiently the public's donations.

Throughout 2008, an important group of staff from all the Bank's areas worked to install the coordination, operation and control systems necessary for the campaign (Administration, Operations and Technology, Human Resources, Security, Branches, Channels and Office Operations, and Marketing, etc).

Banco de Chile launched its Teletón 2008 campaign with a much-publicized game of tennis in the forecourt of its head office, in Paseo Ahumada itself, with an unusual exhibition of doubles in which Fernando González and Robinson Méndez played against Nicolás Massú and Francisco Cayulef before some 1,500 people.

During November 29 and 30, as is habitual, more than 8,000 staff worked voluntarily and generously, covering 10,500 shifts over more than 27 hours. On this occasion, Banco de Chile doubled its present network coverage, setting up more than 580 collection points from Arica to Puerto Williams, including remote places like Villa O'Higgins, Easter Island and Juan Fernández. As in previous years, the network was expanded by collection points in high activity places throughout the country such as supermarkets, theatres, municipality offices, hotels, sports centers, universities, shopping centers, bus terminals and airports.

Remote channels were also set up such as the more than 1,400 automated teller machines, the internet web site [www.bancochile.cl](http://www.bancochile.cl), telephonic contributions and Chilean and international credit cards, plus electronic transfers from checking accounts.

Banco de Chile thus helped to reach the target which had been set at Ch\$13,255 million, and which was amply exceeded by a final total collection of Ch\$22,533 million. This amount will enable the rehabilitation and integration of individuals who receive the daily support of Fundación Teletón, as well as the building of four new facilities in the cities of Coyhaique, Calama, Valdivia and Copiapó.

To encourage customers to participate in Teletón 2008, Banco de Chile organized a campaign inviting them to authorize the sending of their account statements by electronic mail, in order for the Bank to provide Teletón with a portable laboratory, the first for southern Chile, which will enable handicapped children to speed up their rehabilitation. This laboratory consists of a modern advanced-technology measurement system for the diagnosis and treatment of illnesses to the locomotive and neuromuscular systems. It has many advantages including reduced risks during rehabilitation, better final results, a faster insertion into daily life, reduced psychological trauma, reductions in rehabilitation costs and time, greater coverage and capacity for evaluating results, etc.



# OUR COMMITMENT WITH THE COMMUNITY

## Integration Promotion Program

Jointly with the support that Banco de Chile provides to Fundación Teletón, the institution maintains a series of activities that promote the development and integration of disabled people, like SuperArte, Nec Wheelchair Tennis Tour - Banco de Chile Cup and support for the Chilean tennis-player Robinson Méndez.

## SuperArte

As a kind of support for the integral development of disabled people, Banco de Chile took part for the third year in SuperArte, a Fundación Teletón project that demonstrates the talent and creative abilities of the children and young people who participate in art workshops of the institution's High Motivation program throughout Chile.

SuperArte consists of a series of exhibitions of art, weaving, percussion music, theatre and music. These were arranged in the cities of Temuco, Iquique, Talca, Concepción, Valparaíso, Coquimbo, Antofagasta, Puerto Montt, Arica and Santiago, attracting more than 500.000 people who enjoyed the artistry directly.



### Wheelchair Tennis: Nec Wheelchair Tennis Tour - Banco de Chile Cup

Sport is an important aspect in a person's development. Banco de Chile therefore supports the growth and integration of those who are disabled through the "Nec Wheelchair Tennis Tour Chilean Open - Banco de Chile Cup", which held its eleventh annual event in 2008 on the courts of the Bank's sports stadium.

The tournament attracted 40 players from Argentina, Brazil, Slovakia, Peru, Colombia, Spain, Uruguay and Chile and for the first time from Japan and Malaysia.

The tournament forms part of the 136 wheelchair tennis championships played during the year in different countries around the world and which accumulate points for the global ranking.

As is the tradition, the Banco de Chile Cup is awarded to the player notable for their effort and performance in the tournament, which this year fell to the Chilean player Diego Pérez.



### Robinson Méndez



For the fourth consecutive year, Banco de Chile gave its support to the Chilean wheelchair tennis player Robinson Méndez. He has distinguished himself by advancing from 156th position in the global ranking to 20th, and number 1 in Chile and Latin America.

Thanks to the financial assistance provided by Banco de Chile, Mr. Méndez took part in 2008 in 8 tournaments, including those in Buenos Aires, Brazil, Chile, Japan, France, Poland, London and Italy.

# OUR COMMITMENT WITH THE COMMUNITY

## GO FOR EDUCATION OF EXCELLENCE

### Fundación Astoreca

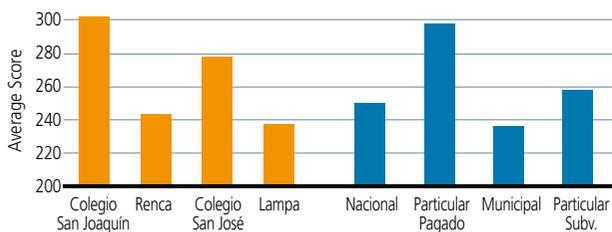
**ASTORECA** In order to provide education of excellence to poor children and young people, Banco de Chile has been committed since 2004 with the Fundación Astoreca. This institution works in extremely-poor districts and developed a replicable and durable model of education of excellence. In the SIMCE test of 2007, the 4th grade junior school students of Colegio San Joaquín, Renca, obtained 302 points and those of the 8th grade managed 317 points, among the best in the country. The Colegio San José, Lampa, whose 4th grade students took the test for the first time, obtained an average of 278 points, very much higher than the national or local average



Through its financial support for Fundación Astoreca, Banco de Chile has collaborated in three initiatives:

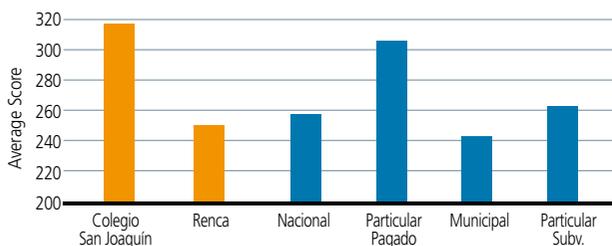
#### Simce Test 4<sup>th</sup> Grade 2007

Results per School



#### Simce Test 8<sup>th</sup> Grade 2007

Results per School



- **“Educando Juntos” web site:** Gathers and presents the successful experiences of foundations and non-profit-making institutions with a broad experience in poverty stricken sectors. Its principal objective is to strengthen the work of schools, publishing educational content and sharing experiences. The site has a team especially dedicated to research, systematization and development of content, plus the guidance of a consultative council formed by members of the 14 associated institutions.
- **Colegio San José, Lampa:** The school is currently providing a quality education to 503 children from kindergarten to fifth grade junior school. In 2009, it will open a pre-kindergarten, and by 2015, when all the school years are completed, it will cater for 1,100 pupils. This important growth has the assistance and commitment of Banco de Chile, which includes the financing of the building and administrative costs.
- **Astoreca Training:** Program that prepares teachers from different districts who are interested in learning good educational practices. It is based on the experience gained by the Foundation through the schools that it administers. During 2008, the work of Astoreca Training incorporated approximately 12,600 children.

Banco de Chile also supports the San José school in different activities and initiatives that encourage the children's development. During 2008, the Bank donated equipment for the students' computer room. For the third consecutive year, it also sponsored the golf tournament organized by Tecno Fast whose funds are donated to the institution.

### PSU Scholarship

For 16 years now, Banco de Chile has awarded the PSU Scholarship for the best nationally weighted marks in the university entrance examination (PSU). This scholarship seeks to recognize academic excellence and is within the policy of support for education, a fundamental pillar in the country's development.

The scholarship considers the tuition and entrance fees for the complete career chosen by the student, and includes a monthly amount to pay the student's expenses.

This year, the recognition was received by Raimundo Honorato Lira, who studied at the Cumbres College in Las Condes and obtained weighted average of 845.5 points in the PSU. He left school with average senior-school marks of 6.6 (out of 7) and will be studying law at the Universidad Católica.

The select group of scholarship-holders of Banco de Chile currently numbers 5 students who are following courses in medicine, psychology and law at Universidad de Chile and Universidad Católica.



### Banco de Chile - Andrónico Luksic Exchange Scholarship



As part of the exchange program promoted by the Bank, "Doing Business in Chile, Doing business in China", the institution in October 2008 received a group of 17 Chinese students from the Business School of the Tsinghua University of Beijing and 6 of its professors, who took part in a presentation on the businesses of the financial entity. Likewise, a group of 17 students from the Universidad Católica and 6 professors visited Beijing and Shanghai.

The Banco de Chile - Andrónico Luksic Exchange Scholarship is the result of an agreement signed in 2006 by the Business School of the Pontificia Universidad Católica de Chile and the Tsinghua University School of Economics and Management, which contemplates MBAs students exchange. The purpose is to deepen knowledge between Chile and China, bringing them closer together especially in cultural and economic areas.

# OUR COMMITMENT WITH THE COMMUNITY

## GO FOR SOCIAL ENTERPRISE IN THE COUNTRY

### Fondo Esperanza of the Hogar de Cristo



In line with its objective of being the bank of all Chileans, Banco CrediChile has developed with Fondo Esperanza and researchers of Harvard University and Universidad de Chile, a study called "Exploring micro-saving in Chile". This project, with its social implications on a global scale, seeks to support the poorest sectors which currently have no contact with banks.

It is a unique and innovative project for Chile and the world of micro-finance, that will permit the development of an eventual social policy directed to mitigate the impact of economic crises on the poorest and most vulnerable homes in the country. The study seeks to identify the advantages of offering savings options to poor businessmen that are sustainable over time and analyzing the most suitable savings mechanism, responding to the people needs.

The research results showed that saving could be a factor for overcoming and absorbing the impacts of a crisis. To support this necessity, Banco CrediChile designed two kinds of savings account with special characteristics and benefits for the universe of 4,000 micro-businesses assigned to the Fondo Esperanza.

## GO FOR TRIUMPHS IN NATIONAL SPORT

### Support for ADO-Chile



Banco de Chile has since 2006 supported the Association of Olympic Sportspeople, ADO-Chile, in order to contribute to the development of national sport. Through this institution, it supports children and young people who are seeking to dedicate themselves to sport and so produce great achievements for Chile.

Thanks to the work of ADO-CHILE, Chile's results in the Beijing Olympic Games 2008 showed a considerable improvement as Chile had 27 qualifying sports-persons, which represent a 20% increase over Athens 2004. Also, during the Games in China, Chile strengthened its Olympic potential as 25% of the qualifiers were in the under-23 years category, which promises well for Chile at the London Olympics 2012.

Chile also won its first gold medal in the 25 years of the World Athletics Championships, obtained by Natalia Duco in the Junior World event in Poland 2008; and its first gold medal in the 38 years history of the World Karate Championships, obtained by David Dubó in Tokyo 2008.

The objective of ADO-Chile is to complement the constancy, effort and sacrifice that sports training requires with the necessary economic and technical help, enabling sports-persons to develop their abilities to the maximum in order to compete at the highest international level and attain the motivation necessary for standing out in their respective disciplines.



In addition, the country in 2008 won its first medals in 15 years in the World Cup for short-pool swimming with three silver medals for Kristel Köbrich in the Moscow 2008, Stockholm 2008 and Berlin 2008 tournaments. There was also the winning of the first medals in five years in the World Open-Water Swimming Cup, with the gold and silver trophies of Kristel Köbrich in the Shantou and Hong Kong tournaments.



## GO FOR "UN CHILE SOLIDARIO"

In line with its commitment to the community, Banco de Chile was once again present in the events that negatively impacted different parts of the country due to natural catastrophes, making an important contribution and providing different benefits to those affected families.

### Antofagasta Earthquake

With a final amount of Ch\$52,583,012, ended the solidarity crusade promoted by Banco de Chile, with the purpose to collect funds for more than 15 thousand victims, in the region of Tarapacá and Antofagasta, after they were stricken by an earthquake on November 2007.

The collected money was donated to Hogar de Cristo for financing the purchase of a property in Tocopilla, where a series of social projects began to be developed there in 2008: the Monseñor Raúl Silva Henríquez Senior Citizen Center, the Weak Senior Citizen Home Attention Program, the Fraternal Canteen, the Street Adult Program and the Los Patroncitos kindergarten.

# OUR COMMITMENT TO CUSTOMERS

## GO FOR A QUALITY AND EFFICIENT SERVICE

*The focus of Banco de Chile was more than ever on its customers in 2008. In order to strengthen relations with them, the organization performed a series of initiatives to be constantly in contact with their needs and requirements. To achieve this goal, service quality was the fundamental key of the corporation's staff work.*

*This was focused on constantly providing, through all the points of contact, an attention of excellence that responds to the high standards of the Chilean and international banking systems, and an efficient service with agile processes developed on the modern technological platform of Banco de Chile.*

### Cultivating Excellence

A new look at customer service is what Banco de Chile worked on in 2008 with all its staff. The focus was to involve every member of the corporation in the work quality executed within the organization. Everyone had to cultivate excellence in their daily activities, both in processes in contact with the customer and those supporting the rest of the institution.

To achieve this important objective, a service model was developed and implemented that generates a continuous improvement culture, based on best practices. The target was to improve the levels of recommendation, permanence and loyalty that were affected by the merger at the beginning of the year.

To meet its objectives, Banco de Chile developed its "Semilla" project oriented to improving the branches and different support areas in order to generate a culture in which each and every one of the Bank's staff are responsible for the service quality provided to the customers.



## A Model Based on Efficiency

Doing things well from the beginning based on excellence and efficiency was a fundamental pillar in the Banco de Chile activities during 2008, focused on developing operational processes of the highest level and stability.

The strategy of Banco de Chile has been to provide quality services through simple, controllable and measurable processes which have been improved continuously in line with transparent standards and differentiated services, according to the business requirements. The focus has been to introduce an infrastructure that supports the stabilization, growth and contingency, simultaneously with the development of technological environment management methodologies.

To achieve the established efficiency targets, Banco de Chile has developed a series of initiatives to modernize certain platforms that help users, improve processes, strengthen the systems security, and reinforce the different business areas. An important investment was also made in new systems and equipment for having a robust, secure and an excellently-performing platform.

# PROFITABILITY

MANAGEMENT OF EXCELLENCE  
ENSURES THE CONTINUOUS  
VALUE CREATION





# CONSOLIDATED FINANCIAL STATEMENTS

## Banco de Chile

### CONSOLIDATED FINANCIAL STATEMENTS BANCO DE CHILE AND SUBSIDIARIES

December 31, 2008 and 2007

*(Translation of consolidated financial statements  
originally issued in Spanish - see Note 2b)*

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*Ch\$: Chilean pesos*

*MCh\$: Millions of Chilean pesos*

*US\$: U.S. dollars*

*ThUS\$: Thousands of U.S. dollars*

*UF: Unidad de fomento*

*(The unidad de fomento is an inflation-indexed, Chilean peso denominated monetary unit set daily in advance on the basis of the previous month's inflation rate).*

## CONSOLIDATED STATEMENTS OF FINANCIAL SITUATION

BANCO DE CHILE AND SUBSIDIARIES  
AS OF DECEMBER 31, 2008 AND 2007

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)  
(EXPRESSED IN MILLIONS OF CHILEAN PESOS)

ASSETS	Notes	Proforma	
		2008 MCh\$	2007 MCh\$
Cash and due from banks	5	751,223	511,779
Transactions in the course of collection	5	469,580	368,855
Trading securities	7	679,843	1,668,851
Securities purchased under resale agreement		75,519	75,282
Derivative instruments	8	904,726	438,043
Loans and advance to banks	9	321,992	477,488
Loans to customers, net	10	13,421,804	12,461,733
Available for sale instruments	11	1,071,438	229,127
Held to maturity instruments	11	—	—
Investments in other companies	12	11,377	9,958
Intangibles assets	13	34,763	31,806
Fixed assets, net	14	205,369	215,286
Current taxes assets	19	—	—
Deferred taxes assets	19	70,505	58,027
Other assets	15	110,303	189,614
<b>TOTAL ASSETS</b>		<b>18,128,442</b>	<b>16,735,849</b>

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF FINANCIAL SITUATION

# CONSOLIDATED FINANCIAL STATEMENTS

BANCO DE CHILE AND SUBSIDIARIES  
AS OF DECEMBER 31, 2008 AND 2007

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)  
(EXPRESSED IN MILLIONS OF CHILEAN PESOS)

LIABILITIES	Notes	Proforma	
		2008 MCh\$	2007 MCh\$
Currents accounts and other demand deposits	16	3,007,261	3,309,190
Transactions in the course of payment	5	141,988	105,438
Securities sold under repurchase agreement		420,658	408,078
Saving accounts and time deposits	17	8,472,590	7,990,733
Derivative instruments	8	862,799	475,131
Borrowings from financial institutions		1,498,549	882,896
Debt issued	18	1,900,588	1,793,176
Other financial obligations		93,708	73,224
Current taxes liabilities	19	9,053	2,551
Deferred taxes liabilities	19	25,465	22,347
Provisions	20	290,990	83,163
Other liabilities	21	107,050	94,659
<b>TOTAL LIABILITIES</b>		<b>16,830,699</b>	<b>15,240,586</b>
<b>EQUITY</b>			
<b>Attributable to the bank's parent equity holders:</b>			
Capital	22	1,106,491	1,087,873
Reserves	22	118,170	118,336
Other comprehensive income	22	(16,660)	(6,963)
Retained earnings:			
Retained earnings	22	8,007	8,007
Income for the year	22	272,425	288,000
Less:			
Provision for minimum dividends	22	(190,698)	—
<b>Subtotal</b>		<b>1,297,735</b>	<b>1,495,253</b>
<b>Minority interest</b>		<b>8</b>	<b>10</b>
<b>TOTAL EQUITY</b>		<b>1,297,743</b>	<b>1,495,263</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>18,128,442</b>	<b>16,735,849</b>

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

BANCO DE CHILE AND SUBSIDIARIES  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)  
(EXPRESSED IN MILLIONS OF CHILEAN PESOS)

		Proforma	
A. STATEMENT OF INCOME	Notes	2008	2007
		MCh\$	MCh\$
Interest revenue		1,663,643	1,401,782
Interest expense		(885,104)	(750,707)
<b>Net interest revenue</b>		<b>778,539</b>	<b>651,075</b>
Income from fees and commissions	27	275,899	271,841
Expenses from fees and commissions	27	(60,035)	(56,341)
<b>Net fees and commissions</b>		<b>215,864</b>	<b>215,500</b>
Gains (losses) from trading and brokerage activities	28	387,703	58,640
Foreign exchange transaction, net		(353,012)	21,702
Other operating income	29	68,386	27,435
<b>Total operating revenues</b>		<b>1,097,480</b>	<b>974,352</b>
Provisions for loan losses	20	(138,593)	(75,641)
<b>OPERATING REVENUES, NET OF PROVISION FOR LOAN LOSSES</b>		<b>958,887</b>	<b>898,711</b>
Staff expenses	30	(306,040)	(276,273)
Administrative expenses	31	(177,862)	(170,918)
Depreciation and amortization		(35,573)	(33,413)
Impairments		—	—
Other operating expenses	32	(54,373)	(29,259)
<b>TOTAL OPERATING EXPENSES</b>		<b>(573,848)</b>	<b>(509,863)</b>
<b>NET OPERATING INCOME</b>		<b>385,039</b>	<b>388,848</b>
Income attributable to affiliates	12	2,987	(2,074)
Net Loss from price-level restatement	2(e)	(77,789)	(63,520)
<b>Income before income tax</b>		<b>310,237</b>	<b>323,254</b>
Income tax	19	(37,810)	(35,251)
<b>NET INCOME FOR THE YEAR</b>		<b>272,427</b>	<b>288,003</b>
Attributable to:			
Equity holders of the parent		272,425	288,000
Minority interest		2	3
<b>Net income per share attributable to equity holders of the parent:</b>		<b>Ch\$</b>	<b>Ch\$</b>
Basic net income		3.37	3.65
Diluted net income		3.37	3.65

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

# CONSOLIDATED FINANCIAL STATEMENTS

BANCO DE CHILE AND SUBSIDIARIES  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)  
(EXPRESSED IN MILLIONS OF CHILEAN PESOS)

B. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	2008	Proforma 2007
	MCh\$	MCh\$
<b>NET INCOME FOR THE YEAR</b>	<b>272,427</b>	<b>288,003</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Net unrealized gains (losses) on available-for-sale investments	(17,291)	(2,144)
Cumulative translation adjustment	4,087	(2,728)
<b>Other comprehensive income before income taxes</b>	<b>(13,204)</b>	<b>(4,872)</b>
Income tax related to other comprehensive income	2,939	364
<b>Total other comprehensive income</b>	<b>(10,265)</b>	<b>(4,508)</b>
<b>TOTAL CONSOLIDATED COMPREHENSIVE INCOME</b>	<b>262,162</b>	<b>283,495</b>
Attributable to:		
Equity holders of the parent	262,160	283,492
Minority interest	2	3
<b>Comprehensive net income per share attributable to equity holders of the parent:</b>	<b>Ch\$</b>	<b>Ch\$</b>
Basic net income	3.25	3.59
Diluted net income	3.25	3.59

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

BANCO DE CHILE AND SUBSIDIARIES  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)  
(EXPRESSED IN MILLIONS OF CHILEAN PESOS)

	Paid-in Capital	Reserves		Other comprehensive income, net	
		Other reserves	Reserves from earnings	Unrealized gains (losses) on available-for- sale	Cumulative translation adjustment
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Balances as of December 31, 2006	555,530	11,975	73,436	(7)	(1,550)
Retained earnings	—	—	4	—	—
Capitalization of earnings	33,833	—	—	—	—
Subscription and payment of shares	84,350	—	—	—	—
Dividends paid	—	—	—	—	—
Cumulative translation adjustment	—	—	—	—	(2,505)
Valuation adjustment on available-for- sale securities	—	—	—	7	—
Price-level restatement	47,461	1,109	5,461	—	—
Net income for the year	—	—	—	—	—
<b>Balances as of December 31, 2007</b>	<b>721,174</b>	<b>13,084</b>	<b>78,901</b>	<b>—</b>	<b>(4,055)</b>
<b>Citibank Balances as of December 31, 2007</b>	<b>277,791</b>	<b>16,678</b>	<b>—</b>	<b>(2,340)</b>	<b>—</b>
<b>Proforma balances as of December 31, 2007</b>	<b>998,965</b>	<b>29,762</b>	<b>78,901</b>	<b>(2,340)</b>	<b>(4,055)</b>
<b>Restated proforma balances for comparison purposes</b>	<b>1,087,873</b>	<b>32,412</b>	<b>85,924</b>	<b>(2,548)</b>	<b>(4,415)</b>
Balances as of December 31, 2007	721,174	13,084	78,901	—	(4,055)
Capital increase as result of the merger	277,791	16,678	—	(2,340)	—
Subscription and payment of shares	17,370	—	—	—	—
Dividends paid	—	—	—	—	—
Cumulative translation adjustment	—	—	—	—	4,087
Valuation adjustment on available-for- sale securities	—	—	—	(14,352)	—
Merger of subsidiaries	—	—	—	—	—
Price-level restatement	90,156	2,494	7,013	—	—
Net income for the year	—	—	—	—	—
Provision for minimum dividends	—	—	—	—	—
<b>Balances as of December 31, 2008</b>	<b>1,106,491</b>	<b>32,256</b>	<b>85,914</b>	<b>(16,692)</b>	<b>32</b>

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

Retained earnings			Total shareholder's equity attributable to the equity holders of the parent	Minority interest	Total equity
Retained earnings	Net income for the year	Provision for minimum dividends			
MCh\$	MCh\$	MCh\$			
—	195,248	—	834,632	1	834,633
—	(4)	—	—	—	—
—	(33,833)	—	—	—	—
—	—	—	84,350	—	84,350
—	(161,411)	—	(161,411)	—	(161,411)
—	—	—	(2,505)	—	(2,505)
—	—	—	7	—	7
—	—	—	54,031	—	54,031
—	242,288	—	242,288	—	242,288
—	<b>242,288</b>	—	<b>1,051,392</b>	<b>1</b>	<b>1,051,393</b>
<b>7,354</b>	<b>22,175</b>	—	<b>321,658</b>	<b>9</b>	<b>321,667</b>
<b>7,354</b>	<b>264,463</b>	—	<b>1,373,050</b>	<b>10</b>	<b>1,373,060</b>
<b>8,007</b>	<b>288,000</b>	—	<b>1,495,253</b>	<b>10</b>	<b>1,495,263</b>
—	242,288	—	1,051,392	1	1,051,393
7,354	22,175	—	321,658	9	321,667
—	—	—	17,370	—	17,370
—	(264,463)	—	(264,463)	—	(264,463)
—	—	—	4,087	—	4,087
—	—	—	(14,352)	—	(14,352)
—	—	—	—	(4)	(4)
653	—	—	100,316	—	100,316
—	272,425	—	272,425	2	272,427
—	—	(190,698)	(190,698)	—	(190,698)
<b>8,007</b>	<b>272,425</b>	<b>(190,698)</b>	<b>1,297,735</b>	<b>8</b>	<b>1,297,743</b>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

BANCO DE CHILE AND SUBSIDIARIES  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)  
(EXPRESSED IN MILLIONS OF CHILEAN PESOS)

CASH FLOWS FROM OPERATING ACTIVITIES:	Notes	Proforma	
		2008	2007
		MCh\$	MCh\$
Net income for the year		272,427	288,003
Charges (credits) to net income which do not represent cash flows:			
Depreciation and amortization		35,573	33,413
Provision for loan losses	20	178,241	120,110
Fair value adjustment of trading securities		(2,836)	5,235
(Income) loss attributable to affiliates	12	(2,987)	2,074
Net gain on sales of assets received in lieu of payment		(7,570)	(1,947)
Gain on sales of bank premises and equipment		118	(446)
Write-offs of assets received in lieu of payment		4,188	12,232
Loss from price-level restatement	2(e)	77,789	63,520
Other credits which do not represent cash flows		(102,517)	(3,353)
Net changes in interest and fee accruals		(196,383)	(41,969)
<b>Total cash flows from operating activities</b>		<b>256,043</b>	<b>476,872</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net increase in loans to customers		(1,311,853)	(1,921,740)
Net increase in investments		(394,015)	148,921
Purchases of bank premises and equipment		(16,311)	(36,250)
Proceeds from sales of bank premises and equipment		778	2,607
Investments in other companies		(6,311)	(3,335)
Purchase of assets and liabilities from Tarjetas de Chile S.A.		—	(14,943)
Dividends received from investments in other companies		1,015	1,111
Proceeds from sale of assets received in lieu of payment		12,040	6,074
Net changes in other assets and liabilities		(38,685)	(528,972)
<b>Total cash flows from investing activities</b>		<b>(1,753,342)</b>	<b>(2,346,527)</b>

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

CASH FLOWS FROM FINANCING ACTIVITIES:	Notes	Proforma	
		2008 MCh\$	2007 MCh\$
Net increase in current accounts		129,942	340,932
Net increase in savings accounts and time deposits		1,003,026	905,440
Decrease in other demand or other deposits		(19,803)	(3,976)
Net increase (decrease) in investments sold under agreements to repurchase		27,748	(199,502)
Net increase (decrease) in short-term foreign borrowings		214,723	(129,107)
Increase in mortgage finance bonds		3,487	5,532
Repayment of mortgage finance bonds		(96,439)	(109,468)
Decrease in other short-term borrowings		(86,427)	(6,980)
Borrowings from Central Bank (long-term)		470	1,503
Payment of borrowings from Central Bank (long-term)		(769)	(1,902)
Proceeds from bond issuances		237,784	248,470
Repayment of bond issuances		(21,778)	(41,938)
Long-term foreign borrowings		1,666,427	680,658
Payment of long-term foreign borrowings		(1,176,750)	(342,668)
Other long-term borrowings		40,970	2,052
Payment of other long-term borrowings		(617)	(332)
Subscription and payment of shares		17,370	91,857
Capital contributions		—	56
Dividends paid		(264,463)	(215,263)
<b>Total cash flows from financing activities</b>		<b>1,674,901</b>	<b>1,225,364</b>
<b>TOTAL NET POSITIVE (NEGATIVE) CASH FLOWS FOR THE YEAR</b>		<b>177,602</b>	<b>(644,291)</b>
Effect of price-level restatement on cash and cash equivalent		(89,907)	(87,324)
<b>Net increase (decrease) in cash and cash equivalent</b>		<b>87,695</b>	<b>(731,615)</b>
Cash and cash equivalent at beginning of year	5	1,298,786	2,030,401
<b>Cash and cash equivalent at end of year</b>	5	<b>1,386,481</b>	<b>1,298,786</b>

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BANCO DE CHILE AND SUBSIDIARIES  
AS OF DECEMBER 31, 2008 AND 2007

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)  
(EXPRESSED IN MILLIONS OF CHILEAN PESOS)

## 1. Company Background:

Banco de Chile ("Banco de Chile" or the "Bank") is a Corporation organized under the laws of the Republic of Chile, regulated by the Superintendency of Banks and Financial Institutions ("SBIF"). Starting 2001, Banco de Chile is regulated by the United States Securities and Exchange Commission ("SEC"), as the Bank is listed on the New York Stock Exchange ("NYSE"), through its American Depository Receipt (ADR) program, which is also registered in the London Stock Exchange. Banco de Chile's shares are also listed on the Latinamerican securities market of the Madrid Stock Exchange ("LATIBEX").

Banco de Chile offers a broad range of banking services to customers, ranging from individuals to large corporations. The services are managed in the following segment areas for internal reporting purposes: large corporate banking, middle and small corporate banking, personal banking services and retail, international banking services and treasury banking services. The Bank's subsidiaries provide other services including securities brokerage, mutual fund management, factoring, insurance brokerage, financial advisory and securitization.

## 2. Summary of Significant Accounting Principles:

### (a) Basis of consolidation:

The consolidated financial statements of Banco de Chile as of December 31, 2008 have been consolidated with those of its Chilean subsidiaries and foreign subsidiary. The consolidated financial statements of Banco de Chile as of December 31, 2007 have been consolidated with those of its Chilean subsidiaries, foreign subsidiary and branches in New York and Miami.

The proforma consolidated financial statements as of December 31, 2007, are the aggregate of the consolidated financial statements of Banco de Chile and Citibank Chile as of the same date, eliminating significant transactions and balances between these banks and their subsidiaries. All prior year amounts have been price-level restated to reflect the changes in the Consumer Price Index (CPI) (8.9%).

The ownership percentages of subscribed and paid-in capital are as follows:

	Interest Owned			
	Direct		Indirect	
	2008	2007	2008	2007
	%	%	%	%
Banco de Chile New York Branch	—	100.00	—	—
Banco de Chile Miami Branch	—	100.00	—	—
Banchile Trade Services Limited (Hong Kong)	100.00	100.00	—	—
Banchile Administradora General de Fondos S.A.	99.98	99.98	0.02	0.02
Banchile Asesoría Financiera S.A.	99.96	99.96	—	—
Citibank Agencia de Valores S.A. (*)	99.90	99.90	—	—
Banchile Corredores de Seguros Ltda.	99.83	99.75	0.17	0.25
Banchile Factoring S.A.	99.75	99.75	0.25	0.25
Banchile Corredores de Bolsa S.A.	99.68	99.68	0.32	0.32
Banchile Securitizadora S.A.	99.00	99.00	1.00	1.00
Socofin S.A.	99.00	99.00	1.00	1.00
Promarket S.A.	99.00	99.00	1.00	1.00
Citibank Corredores de Seguros Ltda. (*) (**)	—	99.90	—	—

(\*) As a result of the merger, Banco de Chile as the legal successor and continuing entity of Citibank Chile, holds title to all of the rights that belonged to the corporation Citibank Agencia de Valores S.A. and the company Citibank Corredores de Seguros Limitada, which consequently became subsidiaries of Banco de Chile in accordance with article 70 of the General Banking Law and Chapter 11-6 of the Updated Compilation of Standards.

(\*\*) According to public deed No. 4.650/2008 dated February 8, 2008, Banchile Corredores de Seguros Ltda., absorbed Citibank Corredores de Seguros Ltda., incorporating the assets and liabilities of the absorbed company. The SBIF authorized the merger between Banchile Corredores de Seguros Ltda., and Citibank Corredores de Seguros Ltda., on March 26, 2008.

The subsidiaries' assets and operating revenue, net of provision for loan losses, represent 2.0% and 15.3% (4.6% and 12.7% in 2007, including the New York and Miami branches) of total consolidated assets and operating income, respectively.

Significant intercompany balances and transactions originated by operations between the bank and its subsidiaries have been eliminated. Minority interest is shown as a separate item in the Consolidated Statements of Financial Situation and Consolidated Statement of Comprehensive Income.

For the consolidation purposes, the financial statements of the New York and Miami branches as of December 31, 2007, and foreign subsidiary as of December 31, 2008 and 2007 have been translated into Chilean pesos at the closing exchange rate of \$629.11 Chilean pesos to US\$ 1 (\$495.82 Chilean pesos to US\$ 1 in 2007) in accordance with the accounting rules related to foreign investments in countries in a stable economic environment as set out in Technical Bulletin No 64 (issued by the Chilean Association of Accountants A.G.).

**(b) Accounting principles applied:**

The Bank, its subsidiaries, its foreign subsidiary and branches abroad, prepared their financial statements according to generally accepted accounting principles in Chile ("Chilean GAAP") and specific accounting regulations from the following different regulatory bodies in each field of business: SBIF, the Superintendency of Securities and Insurance, and the regulations of the United States banking entities.

The application of different valuations criteria, do not generate significant differences to the consolidated financial statements.

Certain accounting practices applied by the Bank that conform to Chilean GAAP may not conform to generally accepted accounting principles in the United States ("US GAAP") or International Financial Reporting Standards ("IFRS"). These financial statements and their accompanying notes have been translated from Spanish to English, for the convenience of the reader.

**(c) Use of estimations in the preparation of financial statements:**

The preparation of consolidated financial statements in conformity Chilean GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

**(d) Interest and revaluations:**

Loans, investments and liabilities are stated including their related interest and revaluations accrued as of the balance sheet date. However, a conservative criteria has been applied by suspending interest accruals and revaluations on past due loans and outstanding current loans of doubtful recovery.

The Bank suspends the accrual of interest and revaluations on loans when there is a high risk of unrecoverability or from the first day in which they become overdue. Accrued interest up to the suspension date remains on the Bank's assets and is considered a part of the loans balance when determining the allowance for loan losses.

**(e) Price-level restatement:**

Shareholders' equity, fixed assets, and other non-monetary assets and liabilities have been restated according to the variation in the CPI. As of December 31, 2008 the application of this method resulted in a net charge to income of MCh\$77,789 (MCh\$63,520 in 2007). The detail of the price-level restatement charge is as follows:

	2008	2007
	MCh\$	MCh\$
Shareholders' equity	(100,316)	(84,018)
Bank premises and equipment	16,683	13,700
Investments in other companies	790	732
Other	5,054	6,066
<b>Net loss from price-level restatement</b>	<b>(77,789)</b>	<b>(63,520)</b>

Income statement accounts have not been price-level restated.

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## (f) Foreign currencies:

Foreign currency assets and liabilities have been translated into Chilean pesos at the closing exchange rate of 629.11 Chilean pesos to US\$1 (\$495.82 Chilean pesos to US\$ 1 in 2007).

The balance of MCh\$353,012 corresponding to the "Foreign exchange transactions (losses)" (MCh\$21,702 in 2007 corresponding to the "Foreign exchange transactions (gains)") shown in the Consolidated Statement of Comprehensive Income, includes both the results of foreign exchange transactions as well as the recognition of the effects that fluctuations in the exchange rates had on assets and liabilities stated in foreign currencies or that are otherwise adjustable according to the exchange rate.

## (g) Trading securities:

Trading securities are securities acquired having the intention of generating profits as result of short-term prices fluctuation or as result of brokerage activities, or are part of a portfolio on which a short-term profit-generating pattern exists.

Trading securities are stated at their fair market value as of the balance sheet date. Gains or losses from their fair market value adjustments, as well as gains or losses from trading activities, are included in "Gains (losses) from trading and brokerage activities" in the Consolidated Statement of Comprehensive Income. Accrued interest and revaluations are reported as "Interest revenue".

All purchases and sales of trading securities that must be delivered within the period established by market regulations or conventions are recorded using the trade date, which is the date on which the purchase or sale of the asset is committed. Any other purchase or sale is treated as a derivative (forward) until liquidation occurs.

## (h) Investments held to maturity and available for sale securities:

Investments held to maturity include only those securities for which the Bank has the ability and intention of keep them until maturity. The remaining investments are considered as available for sale securities.

At inception, both investments are recorded at cost, including transaction costs.

Available for sale securities are subsequently measured at their fair value based on market prices or valuation models. Unrealized gains or losses as result of fair value adjustments are recorded in other comprehensive income within equity. When an available for sale securities is disposed of or impaired, the accumulated fair value adjustment recorded in other comprehensive income is transferred to income and reported under the line item "Gains (losses) from trading activities" when applicable.

Investments held to maturity are recorded at their cost plus accrued interest and revaluations less impairment provisions made when the carrying amount exceeds the estimated recoverable amount.

Interest and revaluations of investments held to maturity and available for sale securities are included under the line item "Interest revenue".

Investment securities, which are subject to hedge accounting, are adjusted according to the rules for hedge accounting.

Purchases and sales of investment securities that must be delivered within the period established by market regulations or conventions are recorded using the trade date that is the date on which the purchase or sale of the asset is committed. Any other purchase or sale is treated as a derivative (forward) until liquidation occurs.

As of December 31, 2008 and 2007, the Bank and subsidiaries do not hold held to maturity instruments.

**(i) Transactions with repurchase and resale agreements:**

The Bank and its subsidiaries enter into resale agreements as a form of investment. Under these agreements, it purchases securities, which are included as assets under the caption "Securities purchased under resale agreements", which are valued in accordance with the agreed-upon interest rate.

The Bank and its subsidiaries also enter into security repurchase agreements as a form of financing. Investments that are sold subject to a repurchase obligation and serve as collateral for borrowings are reclassified as "Trading securities" or "Available for sale Instruments". The liability to repurchase the investment is classified as "Securities sold under repurchase agreements", which is valued in accordance with the agreed-upon interest rate.

**(j) Assets received in lieu of payment:**

Assets received in lieu of payment are classified under "Other assets", recorded at cost plus price-level restatement less regulatory write-offs and presented net of a global valuation allowance. The Superintendency of Banks and Financial Institutions require regulatory write-offs if the asset is not sold within one year of foreclosure.

**(k) Fixed asset:**

Fixed assets are stated at acquisition cost plus price-level restatement (except for New York and Miami branches) and net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets.

Real estate held for sale amounted to MCh\$318 as of December 31, 2007. In order to reflect the realization value of these assets, an allowance of MCh\$ 239 has been recorded.

As of December 31, 2008 there are no fixed assets held for sale.

**(l) Leasing contracts:**

Accounts receivable for leasing contracts, included under the caption "Loans to customers", correspond to the periodic rent installments of contracts which meet the definition to be classified as financial leases and are presented at their nominal value net of unearned interest as of each year-end.

**(m) Factoring transactions:**

The Bank and its subsidiary Banchile Factoring S.A. carry out factoring transactions, where they receive invoices and other commercial instruments representative of credit, with or without recourse, and they advance to the assignor a percentage of the total amounts to be collected from the original debtor.

As of December 31, 2008, the caption "Loans to customers" includes MCh\$483,904 (MCh\$523,573 in 2007), corresponding to the amount advanced to the assignor plus accrued interest net of payments received.

**(n) Investments in other companies:**

Shares or rights in other companies on which the bank owns 10% or more, or it is able to appoint at least one member of the Board of Directors, are accounted for under the equity method. Other investments are carried at cost restated for price-level changes.

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## (ñ) Translation of financial statements of the Bank's foreign branches and subsidiaries:

The Bank translates the accounting records of its subsidiary Banchile Trade Services Limited, Hong Kong to Chilean pesos from US dollars in accordance with guidelines established by the SBIF, which are consistent with Technical Bulletin No. 64, "Accounting for Investments Abroad", issued by the Chilean Association of Accountants. All Comprehensive Income Statement and Financial Situation Statement amounts are translated into Chilean pesos as of the exchange rate in effect as of the applicable balance sheet date. Under this standard the foreign investment recorded in the parent company's books is price-level restated, the effects of which are reflected in income, while any foreign exchange gains or losses between the Chilean peso and the US dollar, net of the effects of Chilean inflation, is recorded in shareholders' equity in the account "Other comprehensive income".

As of December 31, 2007, Banco de Chile applied the same criteria for their New York and Miami branches.

## (o) Derivative instruments:

Derivative instruments, which include foreign currency and U.F. forwards, interest rate forwards, currency and interest rate swaps, currency and interest rate options and other financial derivative instruments, are recorded in the balance sheet at cost (including transaction costs) at inception and subsequently measured at their fair value. The fair value is obtained from market quotes, discounted cash flows models and options valuation models, as and where applicable. Derivative contracts are reported as an asset when their fair value is positive and as a liability when negative under the item "Derivative Instruments".

Certain embedded derivatives in other financial instruments are treated as separate derivatives when their risk and characteristics are not closely related to those of the main contract and this is not recorded at its fair value with its unrealized gains and losses included in income.

At inception, a derivative contract must be designated by the Bank as a derivative instrument for trading or hedging purpose.

Changes in the fair value of derivative contracts maintained for trading purpose are included under "Gains (losses) from trading and brokerage activities", in the Consolidated Statement of Comprehensive Income.

If a derivative instrument is classified as a hedging instrument, it can be: (1) a hedge of the fair value of existing assets or liabilities or firm commitments, or (2) a hedge of cash flows related to existing assets or liabilities or forecasted transactions. A hedge relationship for hedge accounting purposes must comply with all of the following conditions: (a) at the inception, the hedge relationship has been formally documented; (b) it is expected that the hedge would be highly effective; (c) the effectiveness of the hedge can be measured in a reasonable manner; and (d) the hedge is highly effective with respect to the hedged risk on an ongoing basis and throughout the entire hedge relationship.

Certain derivatives transactions which do not qualify for hedge accounting are treated and reported as derivatives for trading purposes even though they provide an effective hedge on the risk of net positions.

When a derivative instrument hedges the risk of changes in the fair value of an existing asset or liability, the asset or liability is recorded at its fair value with respect to the specific hedged risk. Gains or losses from fair value adjustments, both the hedged item and the derivative instrument, are recognized in income.

Should the hedged item in a fair value hedge be a firm commitment, changes in the fair value of the commitment with respect to the hedged risk are recorded as an asset or liability against net income for the year. Gains or losses from fair value adjustments of the hedging derivative are recorded in income. When an asset or liability is acquired as a result of the commitment, the initial recognition of the asset or liability acquired is adjusted to incorporate the accumulated effect of the valuation at fair value of the firm commitment, which was previously recorded in the balance sheet.

When a derivative hedges the risk of changes in the cash flows of existing assets or liabilities or forecasted transactions, the effective portion of changes in the fair value related to the hedged risk is recorded in equity. Any ineffective portion is directly recorded in income. The accumulated amounts recorded in equity are transferred to income at the moment that the hedge item affects income.

When an interest rate fair value hedge is performed on a portfolio basis and the hedged item is an amount instead of individualized assets or liabilities, gains or losses from fair value adjustments, both the hedged portfolio and the derivative instrument, are recorded in income but the fair value adjustment of the hedged portfolio is reported in the Statement of financial situation under "Other assets" or "Other liabilities", according to the position of the portfolio hedged at this moment.

**(p) Loans to customers, allowances, charge-offs and loans recoveries:**

Loans and account receivables issued and acquired by the Bank and its subsidiaries are initially recorded at cost (i.e. the original amount loaned). Subsequent to initial recording, loans are carried at their amortized cost and disclosed net of allowances for loan losses.

In accordance with the SBIF regulations, the Bank, its subsidiaries and foreign branches utilize models or methods, based on an individual and group analysis of the debtors, to determine the allowances for loan losses.

**Allowances for individual evaluations**

An individual analysis of debtors is applied to individuals or companies with whom, due to size, complexity or level of exposure with the entity, the Bank must be completely familiar. Likewise, it requires assigning a risk category to each debtor and its respective loans. This risk category should consider the following factors: industry or sector, partners and administration, financial situation, behavior and payment capacity.

One of the following categories must be assigned to each debtor and its loans after the analysis has been finalized:

- i. Categories A1, A2 and A3 correspond to debtors without significant risks, whose payment capacity will continue to be positive even if unfavorable business, economic or financial situation arise.
- ii. Category B corresponds to debtors that show some risk, but do not show signs of impairment. However, these debtors might stop paying some of its obligations if foreseeable, adverse business, economic or financial situation arise.
- iii. Categories C1, C2, C3, C4, D1 and D2 correspond to debtors with insufficient payment capacity.

In order to determine allowances for loan losses classified as A1, A2, A3 and B, the Bank uses the percentages approved by its Board of Directors. Allowance for debtors classified as C1, C2, C3, C4, D1 and D2 are determined, in accordance to current regulations, as follows:

Category	Range of estimated loss	Allowance
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%

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## **Allowances for group evaluations**

The group analysis is used to analyze a large number of operations whose individual amounts are not significant. For this analysis, the Bank uses models based on attributes of the debtors and their loans, and on the behavior of a group of loans. In the group evaluations, the allowances are always determined in accordance with the expected loss using the aforementioned models.

## **Additional allowances**

In accordance to SBIF regulations, the Bank has recorded additional allowances for its individually evaluated loan portfolio, taking into consideration the expected impairment of this portfolio. The calculation of this allowance is performed based on the Bank's historical experience and considering possible future adverse macroeconomic conditions or circumstances that could affect a specific sector, industry, groups of debtors or projects. During the current year, a charge to income of MCh\$16,997 (MCh\$320 in 2007), was recorded as result of this additional allowance.

## **Charge-offs**

Loans are written-off when the collection efforts have been exhausted but not later than the maximum periods prescribed by the SBIF, which are as follows:

- 24 months past due (3 months past due for consumer loans) for loans without collateral.
- 36 months past due for loans with collateral.

The past-due portfolio is composed of loans or loan installments whose principal or interest payments are 90 days or more past due.

## **Loan loss recoveries**

Cash recoveries on written-off loans including loans that were reacquired from the Central Bank of Chile, recorded in memorandum accounts, are recorded directly to income, in the Consolidated Statement of Comprehensive Income, within "Provisions for loan losses" item.

As of December 31, 2008, recoveries on written-off loans amounted to MCh\$39,648 (MCh\$44,469 in 2007).

## **(q) Deferred taxes and income taxes:**

The effects of deferred taxes arising from temporary differences between the tax basis and financial basis of accounting are recorded on an accrual basis in accordance with generally accepted accounting principles in Chile ("Chilean GAAP").

Income tax provision is determined based on current Chilean tax legislation.

## **(r) Staff vacations:**

The annual cost of vacations and staff benefits are recognized on an accruals basis.

**(s) Intangibles assets:**

This account includes goodwill, identifiable intangible assets and software, net of accumulated amortization and adjustments.

Intangible assets such as goodwill, assets generated in business combinations such as core deposit, software and trademark are valued at price-level restated cost and amortized using the straight-line method based on their estimated useful lives. The maximum amortization period for software is six years.

**(t) Staff severance indemnities:**

Banco de Chile has recorded a liability for long-term severance indemnities in accordance with employment contracts it has with certain employees. The liability, which is payable to specified retiring employees with more than 30 years of service, is recorded at the present value of the accrued benefits, which are calculated by applying a real discount rate to the benefit accrued as of year-end over the estimated average remaining service period.

For the years ended December 31, 2008 and 2007, the obligation has been discounted using the real interest rate of 6% per annum.

**(u) Cash and cash equivalents:**

Cash and cash equivalents corresponds to the account "Cash and bank deposits", plus (minus) the net balance of transactions in the course of collection that are shown in the Statement of Consolidated Financial Situation, plus highly-liquid trading and available-for-sale instruments with insignificant risk of changing value, maturing in no more than three months from the date of acquisition and repurchase agreements with similar conditions. It also includes investments in fixed-income mutual funds that are presented together with trading instruments in the Statement of Consolidated Financial Situation.

**3. Accounting Changes:**

**(a)** The SBIF, through its Circular No. 3,410 dated November 9, 2007, subsequently supplemented by Circular No. 3,443 dated August 21, 2008, introduced the new Compendium of Accounting Standards that Banks must apply as result of the IFRS convergence project developed by this Superintendency. The main impacts originated by the application of these new accounting criteria are described below:

**i. Accounting changes applied during 2008:**

In accordance with Chapters B-4 and E of the above mentioned Compendium of Accounting Standards, the Bank recorded a liability for an amount of MCh\$190,698 under the line item "Provisions" as of December 31, 2008 related to the minimum dividends payment, reflecting as a counterpart an equity reduction for the same amount under "Retained earnings". Until 2007, dividend obligations were recorded when declared by the Shareholders' Meeting. This change did not generate effects on income.

**ii. New formats for the presentation of financial statements applied starting 2008:**

Chapter C-3 of the above mentioned Compendium of Accounting Standards established the new formats for presentation of the annual financial statements, requiring in Chapter E, its application starting 2008. The application of these new formats only affected the presentation of these financial statements, and did not have an effect on the accounting criteria applied by the Bank. For comparison purposes the 2007 financial statements have been modified in accordance with the new presentation format, and therefore, the financial statements that are presented for this period differ, in terms of their presentation, from those reported the previous year.

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### iii. Standards that will be applicable starting 2009:

In addition, the above-mentioned Compendium of Accounting Standards establishes that starting January 1, 2009, banks must begin with the application of the new accounting criteria established by the SBIF, and in those matters not addressed by the compendium, apply IFRS. The changes in accounting criteria are related, among other things, to the following matters: a) suspension of the price-level restatement mechanism; b) option to reevaluate fixed assets as of the date of first time adoption; c) accrual of loan interest at the effective rate; d) changes and incorporation of additional disclosures in notes to the financial statements; etc.

The application of these new accounting criteria originated adjustments on the Bank's equity accounts as of January 1, 2009, and will also affect the determination of income in future years. Likewise, and only for comparison purposes with the financial statements that will be presented in 2009, the Bank must present the financial statements for 2008 in accordance with the new accounting criteria, which will differ from those presented herein. As of the issuance date of these consolidated financial statements, the Bank is in the process of preparing the information that will allow it to estimate, with reasonable objectivity, the final adjustments that must be recorded in 2009 and the effects on the statement of financial situation and on the statement of comprehensive income for 2008.

- (b) Subsequent to the merge between Banco de Chile and Citibank Chile, which was effective on January 1, 2008, the Bank proceeded with the homologation criteria maintained by each bank before the merge with respect to financial instruments classification, according to the different categories defined by the rule. The homologation criteria process performed at September 30, 2008 has implied to reclassify certain financial instruments from " Trading Securities" to " Available for sale instruments " by an amount equivalent to MCh\$244,827 (historical).
- (c) During the period ended December 31, 2008, there have not been others accounting changes that may significantly affect these consolidated financial statements.

### 4. Relevant Events:

- (a) On January 1, 2008, the merger of Banco de Chile with Banco Citibank Chile was effective, thus complying with the agreement reached in the respective Extraordinary Shareholders' Meetings held on December 27, 2007. Consequently, beginning on that date, Banco de Chile is the legal successor entity of Citibank Chile.

The SBIF approved the merger by Resolution No. 3 dated January 8, 2008.

- (b) On December 31, 2007, Banco de Chile and Citibank N.A. entered into a "Share Purchase Sale and Assumption of Liabilities Agreement" for its branches in Miami and New York, effective January 1, 2008, by which Citibank N.A. acquired their assets and assumed their liabilities with certain exclusions, subject to the authorization of the Office of the Comptroller of the Currency (OCC) and the Federal Reserve Bank of Atlanta, paying to Banco de Chile a total price of US\$130 million.

On January 3, 2008, the sale was effective, generating a gain, net of taxes, of MCh\$35,593, recording MCh\$38,459 in other operating income and MCh\$2,866 in income taxes.

- (c) In the Ordinary Board of Directors held on January 8, 2008, the Board of Directors accepted the resignation of Mr. Rodrigo Manubens Moltedo and Deputy Director Messrs. Thomas Fürst Freiwirth and Jorge Ergas Heymann as Alternate Directors.

Likewise, the Board of Directors appointed Mr. Raúl Anaya Elizalde as Director, Mr. Rodrigo Manubens Moltedo as First Deputy Director and Mr. Thomas Fürst Freiwirth as Second Deputy Director until the next Ordinary Shareholders' Meeting.

Additionally, Mr. Jorge Ergas Heymann was appointed as Board advisor.

- (d) In conformity with authorization from the Superintendency of Banks and Financial Institutions on February 1, 2008, Banco de Chile and its subsidiary Banchile Asesoría Financiera S.A. acquired all of the shares of the company Legg Mason (Chile) Administradora General de Fondos S.A. on February 8, 2008. Banco de Chile acquired 148,793 shares and Banchile Asesoría Financiera S.A. acquired 1 share. The total purchase price for the shares amounted to US\$13,000,000. Therefore, Legg Mason (Chile) Administradora General de Fondos S.A. became a subsidiary of Banco de Chile.
- (e) During March 2008, in accordance with the agreement reached in the Extraordinary Shareholders' Meeting held May 17, 2007, 120,000,000 shares were subscribed and paid.
- (f) In the Ordinary Shareholders' Meeting of Banco de Chile held on March 27, 2008, the entire Board of Directors was renewed as the legal and statutory period for Directors of 3 years had expired. Alternate Directors were also appointed.

The following individuals were elected as Directors by shareholder vote at the aforementioned meeting for a new period of three years:

Directors:	Raúl Anaya Elizalde
	Jorge Awad Mehech
	Jacob Ergas Ergas
	Jaime Estévez Valencia
	Juan Andrés Fontaine Talavera
	Pablo Granifo Lavín
	Andrónico Luksic Craig
	Guillermo Luksic Craig
	Gonzalo Menéndez Duque
	Francisco Pérez Mackenna
	Fernando Quiroz Robles

Deputy Directors:	Rodrigo Manubens Moltedo (First Director)
	Thomas Fürst Freiwirth (Second Director)

In the session of the Board of Directors held on March 28, 2008, the following appointments were agreed:

President:	Pablo Granifo Lavín
Vice President:	Andrónico Luksic Craig
Advisors:	Hernán Büchi Buc
	Jorge Ergas Heymann
	Francisco Garcés Garrido

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- (g) In the Ordinary Session of the Board of Directors held on April 24, 2008, the Board of Directors agreed to set a minimum auction price of Ch\$38.80 per share for 319,951,628 new shares.

On May 5, 2008, Banco de Chile communicated that as a consequence of the full subscription and payment of 319,951,628 new shares of Banco de Chile, which were auctioned on April 30, 2008 at the Santiago Stock Exchange, the capital increase of 2,516,010,979 new shares, agreed upon by shareholders at the Extraordinary Shareholders' Meeting held May 17, 2007, has been fully subscribed and paid.

In this way, Banco de Chile's paid-in capital is divided into 80,879,895,984 nominative shares with no par value, fully subscribed and paid.

- (h) In the Extraordinary Shareholders' Meetings of the subsidiaries Banchile Administradora General de Fondos S.A. and Banedwards Administradora General de Fondos S.A., (formerly Legg Mason (Chile) Administradora General de Fondos S.A.) held on May 8, 2008, shareholders approved the merger between Banedwards Administradora General de Fondos S.A. and Banchile Administradora General de Fondos S.A., modifying the by-laws of the latter. This merger and by-law modification were approved by the Superintendency of Securities and Insurance through Exempt Resolution No. 371 and certified on June 12, 2008, and was recorded in the Commerce Registry of the Santiago Real Estate Registrar on page 26,455 No. 18,139 dated June 13, 2008 and published in the "Diario Oficial" on June 14, 2008.

As a result of the above-mentioned merger, the subsidiary Banedwards Administradora General de Fondos S.A., (formerly Legg Mason (Chile) Administradora General de Fondos S.A.) was dissolved.

- (i) On December 23, 2008, Banco de Chile and Compañía Nacional de Teléfonos, Telefónica del Sur S.A. ("Telsur") agreed to enter into a Trade Agreement in order to optimize the placement and use of credit cards issued by the Bank. This commercial alliance to implement a system linked to credit cards issued by the Bank will provide discounts, benefits and incentives to be given to clients of both the Bank and Telsur.

The Bank's Board of Directors approved the Trade Agreement as the conditions and benefits are favorable for Banco de Chile and reflect arm's length conditions.

- (j) On December 30, 2008, Banco de Chile and Banchile Seguros de Vida S.A. agreed to enter into a Mortgage Life Insurance Agreement that states the particular terms for mortgage life insurance contracted with Banchile Seguros de Vida S.A. by Banco de Chile for its debtor's portfolio.

Banchile Seguros de Vida S.A. is a related company of Banco de Chile based on the provisions of article 44 of the Corporations Law and the Bank's Board of Directors deemed the price and other terms to reflect arm's length conditions.

**5. Cash and Cash Equivalent:**

**(a) Details of cash and cash equivalent and its reconciliation to the statement of cash flows at each year-end is as follows:**

	2008	2007
	MCh\$	MCh\$
Cash and due from banks		
Cash	223,103	236,035
Chilean Central Bank deposits	168,255	80,476
Deposits in other Domestic banks	80,624	59,219
Deposits abroad	279,241	136,049
<b>Subtotal – Cash and due from banks</b>	<b>751,223</b>	<b>511,779</b>
Net transactions in the course of settlement	327,592	263,417
Highly liquid financial instruments	232,147	448,308
Repurchase agreements	75,519	75,282
<b>Total cash and cash equivalent</b>	<b>1,386,481</b>	<b>1,298,786</b>

Amounts in cash and Central Bank deposits are regulatory reserve deposits for which the Bank must maintain a certain monthly average.

**(b) Transactions in the course of settlement:**

Transactions in the course of settlement are transactions for which the only remaining step is settlement, which will increase or decrease the funds in the Central Bank or in foreign banks, normally occurring within 12 to 24 business hours and are detailed as follows:

	2008	2007
	MCh\$	MCh\$
Assets		
Documents drawn on other banks (clearing)	230,861	222,522
Funds receivable	238,719	146,333
<b>Subtotal transactions in the course of collection</b>	<b>469,580</b>	<b>368,855</b>
Liabilities		
Funds payable	(141,988)	(105,438)
<b>Subtotal transactions in the course of payment</b>	<b>(141,988)</b>	<b>(105,438)</b>
<b>Net transactions in the course of settlement</b>	<b>327,592</b>	<b>263,417</b>

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## 6. Leasing Contracts:

The Bank's scheduled cash flows to be received from leasing contracts have the following maturities:

Maturity	Total receivable		Unearned income		Net lease receivable (*)	
	2008	2007	2008	2007	2008	2007
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Due within one year	274,643	286,303	(34,417)	(32,363)	240,226	253,940
Due after 1 year but within 2 years	178,299	174,630	(23,336)	(22,764)	154,963	151,866
Due after 2 years but within 3 years	120,661	113,133	(15,779)	(15,637)	104,882	97,496
Due after 3 years but within 4 years	71,272	75,062	(10,964)	(10,969)	60,308	64,093
Due after 4 years but within 5 years	49,196	50,262	(8,070)	(7,947)	41,126	42,315
Due after 5 years	143,021	141,038	(20,817)	(21,139)	122,204	119,899
<b>Total</b>	<b>837,092</b>	<b>840,428</b>	<b>(113,383)</b>	<b>(110,819)</b>	<b>723,709</b>	<b>729,609</b>

(\*) The net balance receivable does not include the past-due portfolio totaling MCh\$768 as of December 31, 2008 (MCh\$831 in 2007).

## 7. Trading Securities:

The detail of financial instruments classified as trading securities is as follows:

	2008	2007
	MCh\$	MCh\$
<b>Instruments issued by the Chilean Government and Central Bank:</b>		
Instruments issued by the Chilean Central Bank	224,447	427,807
Treasury bonds or notes payable	80,046	8,855
Other government instruments	39	450
<b>Other instruments issued in Chile:</b>		
Instruments issued by other banks	263,160	539,713
Bonds and commercial paper issued by companies	18,263	113,642
Other instruments issued in Chile	330	1,336
<b>Instruments issued abroad:</b>		
Instruments issued by other foreign banks	—	373,808
Other instruments issued abroad	40,579	24,225
<b>Mutual fund investments:</b>		
Funds managed by related companies	52,979	179,015
Funds managed by third-parties	—	—
<b>Total</b>	<b>679,843</b>	<b>1,668,851</b>

Instruments issued by the Chilean Government and Central Bank include instruments sold under agreements to repurchase to customers and financial institutions, equivalent to MCh\$9,012 as of December 31, 2008 (MCh\$59,507 in 2007).

Included in Other instruments issued in Chile and instruments issued abroad are instruments sold under agreements to repurchase to customers and financial instruments, equivalent to MCh\$263,417 as of December 31, 2008 (MCh\$207,424 in 2007).

Agreements to repurchase have an average expiration of 13 days as of year-end (9 days in 2007).

Additionally, the Bank holds financial investments in mortgage finance bonds issued by itself in the amount of MCh\$113,127 (MCh\$138,433 in 2007), which are presented as a reduction of the liability line item "Debt issued".

## 8. Derivative Instruments:

The Bank uses derivative instruments for trading and hedging purposes:

	Contract Notional amount with final expiration date in						Fair value			
	Less than 3 months		Over 3 months/Less than 1 year		Over 1 year		Assets		Liabilities	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Derivatives held for hedging purposes</b>										
Interest rate swaps	—	—	—	—	210,125	107,990	27,844	5,361	11,585	—
<b>Total derivatives held for hedging purposes</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>210,125</b>	<b>107,990</b>	<b>27,844</b>	<b>5,361</b>	<b>11,585</b>	<b>—</b>
<b>Derivatives held for trading purposes</b>										
Currency forwards	6,448,816	7,436,836	4,226,628	6,741,682	476,500	1,031,454	554,044	146,282	480,797	195,397
Interest rate swaps	1,678,768	903,711	3,954,401	4,311,714	6,915,953	6,559,541	139,569	92,278	160,819	87,610
Currency and rate swaps	341,276	24,276	874,434	2,187,639	2,167,170	599,244	182,034	193,888	207,247	191,921
Currency call options	5,033	16,054	13,840	8,731	—	—	912	99	1,709	79
Rate call options	—	—	—	—	647,006	644,488	—	—	21	124
Currency put options	4,404	4,162	13,211	—	—	—	323	135	621	—
<b>Total derivatives held for trading purposes</b>	<b>8,478,297</b>	<b>8,385,039</b>	<b>9,082,514</b>	<b>13,249,766</b>	<b>10,206,629</b>	<b>8,834,727</b>	<b>876,882</b>	<b>432,682</b>	<b>851,214</b>	<b>475,131</b>
<b>Total Derivative instruments</b>	<b>8,478,297</b>	<b>8,385,039</b>	<b>9,082,514</b>	<b>13,249,766</b>	<b>10,416,754</b>	<b>8,942,717</b>	<b>904,726</b>	<b>438,043</b>	<b>862,799</b>	<b>475,131</b>

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## 9. Loans and Advance to Banks:

As of December 31, 2008 and 2007, amounts are detailed as follows:

	2008	2007
	MCh\$	MCh\$
<b>Domestic Banks</b>		
Unavailable Central Bank Deposits	250,000	420,929
Other Central Bank credits	665	155
Interbank loans	10,005	30,948
Current account overdrafts	—	2
Provisions and impairment of loans with Chilean banks	—	—
<b>Foreign Banks</b>		
Loans to foreign banks	33,484	25,682
Other credits with foreign banks	28,154	—
Provisions and impairment of loans with foreign banks	(316)	(228)
<b>Total</b>	<b>321,992</b>	<b>477,488</b>

## 10. Loans to Customers:

The loans and account receivable from clients included in the accompanying consolidated balance sheets are classified into subcategories as described below:

### (a) Commercial Loans

Comprised of loans and accounts receivable from clients not included in mortgage or consumer loans categories.

### (b) Mortgage Loans

This includes mortgage loans granted to individuals to acquire, expand, repair or build a home, issued as mortgage bonds, endorsable mortgage loans or other methods. It also includes supplementary loans for the same purposes and bridge loans granted during the period before the mortgage loan has been settled. This subcategory also includes residential real state lease transactions and other accounts receivable.

**(c) Consumer Loans**

Comprised of all loans granted to individuals to be used for purchasing goods or services. It includes different types of loans (either installments or revolving), as well as balances from using credit cards or making overdrafts on current accounts belonging to individuals. Consumer loans also include consumer lease transactions and other accounts receivable.

Consumer loans do not include loans granted to finance any business activity of any magnitude that the debtor is developing or may develop.

	2008	2007
	MCh\$	MCh\$
<b>Commercial Loans:</b>		
Commercial loans	6,496,155	5,960,718
Foreign trade loans	1,532,302	1,004,340
Current account debtors	193,062	288,811
Factoring transactions	483,904	523,573
Leasing transactions	724,423	730,369
Other loans and accounts receivable	23,598	24,857
<b>Subtotal</b>	<b>9,453,444</b>	<b>8,532,668</b>
<b>Mortgage Loans:</b>		
Mortgage bonds	256,875	320,135
Endorsable mortgage loans	203,996	235,873
Other residential real state mortgage loans	1,846,129	1,613,034
Other loans and accounts receivable	1,013	1,118
<b>Subtotal</b>	<b>2,308,013</b>	<b>2,170,160</b>
<b>Consumer Loans:</b>		
Consumer loans in installments	1,324,250	1,357,637
Current account debtors	250,158	268,496
Credit card debtors	312,109	301,020
Lease transactions	54	71
Other loans and accounts receivable	977	1,169
<b>Subtotal</b>	<b>1,887,548</b>	<b>1,928,393</b>
<b>Total Loans</b>	<b>13,649,005</b>	<b>12,631,221</b>
<b>Allowances:</b>		
Allowances for commercial loans	(124,777)	(87,019)
Allowances for mortgage loans	(11,199)	(8,356)
Allowances for consumer loans	(91,225)	(74,113)
<b>Subtotal</b>	<b>(227,201)</b>	<b>(169,488)</b>
<b>Total Loans to Customers, Net</b>	<b>13,421,804</b>	<b>12,461,733</b>

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## 11. Investment Securities:

Details of instruments classified as available for sale securities and as investments held to maturity are as follows:

	2008			2007		
	Investments			Investments		
	Available for sale	Held to maturity	Total	Available for sale	Held to maturity	Total
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Instruments issued by the Chilean Government and Central Bank:</b>						
Central Bank instruments	381,965	—	381,965	150,884	—	150,884
Treasury bonds or notes payable	30,251	—	30,251	—	—	—
Other government instruments	11,466	—	11,466	—	—	—
<b>Other instruments issued in Chile:</b>						
Instruments issued by other banks	498,303	—	498,303	78,243	—	78,243
Bonds and commercial paper issued by companies	46,569	—	46,569	—	—	—
<b>Instruments issued abroad:</b>						
Other instruments issued abroad	102,884	—	102,884	—	—	—
<b>Total</b>	<b>1,071,438</b>	<b>—</b>	<b>1,071,438</b>	<b>229,127</b>	<b>—</b>	<b>229,127</b>

Instruments issued by the Chilean Government and Central Bank includes instruments with repurchase agreements sold to clients and financial institutions, totaling MCh\$77,789 as of December 31, 2008 (MCh\$14,536 in 2007). The repurchase agreements have an average maturity of 12 days as of year-end (21 days in 2007).

As of December 31, 2008 and 2007, the portfolio of available for sale securities include a net unrealized loss of MCh\$16,692 (MCh\$2,548 in 2007), recorded in other comprehensive income within equity.

## 12. Investments in Other Companies:

(a) This line item includes investments in other companies for an amount of MCh\$11,377 (MCh\$9,958 in 2007), which is detailed as follows:

Company	Shareholder	Ownership		Equity		Investment			
		2008	2007	2008	2007	Book value		Income (Loss)	
		%	%	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Servipag Ltda.	Banco de Chile	50.00	50.00	5,307	4,272	2,654	2,137	518	367
Transbank S.A.	Banco de Chile	26.16	26.16	6,794	6,153	1,777	1,605	413	207
Redbanc S.A.	Banco de Chile	38.13	38.13	4,400	4,289	1,678	1,636	166	247
Soc. Operadora de Tarjetas de Crédito Nexus S.A.	Banco de Chile	25.81	25.81	4,916	5,095	1,269	1,316	209	255
Bolsa de Comercio de Santiago	Banchile Corredores de Bolsa S.A.	4.17	4.17	18,961	17,828	790	743	214	234
Soc. Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.	Banco de Chile	20.19	20.19	3,613	3,960	729	734	181	52
Administrador Financiero de Transantiago S.A.	Banco de Chile	20.00	20.00	3,428	4,468	526	—	957	(3,622)
Bolsa de Comercio de Santiago	Citibank Agencia de Valores S.A.	2.08	2.08	18,961	17,828	395	371	107	10
Sociedad Interbancaria de Depósitos de Valores S.A.	Banco de Chile	26.81	26.81	1,343	1,333	360	358	69	67
Artikos Chile S.A.	Banco de Chile	50.00	50.00	711	503	355	252	104	59
Centro de Compensación Automatizado S.A.	Banco de Chile	33.33	33.33	913	897	304	299	28	41
Bolsa Electrónica de Chile S.A.	Banchile Corredores de Bolsa S.A.	4.88	5.00	4,120	3,732	201	186	14	8
Bolsa Electrónica de Chile S.A.	Citibank Agencia de Valores S.A.	2.44	2.50	4,120	3,732	100	93	7	1
<b>Subtotal</b>						<b>11,138</b>	<b>9,730</b>	<b>2,987</b>	<b>(2,074)</b>
Shares or rights in other companies						239	228	—	—
<b>Total</b>						<b>11,377</b>	<b>9,958</b>	<b>2,987</b>	<b>(2,074)</b>

(b) The reconciliation between opening and ending balance of investments in other companies that are not consolidated in 2008 and 2007 is detailed as follows:

	2008	2007
	MCh\$	MCh\$
Opening Balance	9,958	9,881
Acquisitions	—	3,335
Participation in net income	2,987	(2,074)
Dividends received	(1,015)	(1,111)
Impairment allowance	(464)	(894)
Other	(89)	821
<b>Ending balance</b>	<b>11,377</b>	<b>9,958</b>

### 13. Intangibles Assets:

As of December 31, 2008 and 2007, Intangibles assets are detailed as follows:

	2008	2007
	MCh\$	MCh\$
Goodwill		
Legg Mason	3,904	—
Share in stock exchange (Accival)	542	678
Atlas	—	3,899
<b>Subtotal</b>	<b>4,446</b>	<b>4,577</b>
Software or computer programs	28,675	27,229
Legg Mason customer list	1,642	—
<b>Total</b>	<b>34,763</b>	<b>31,806</b>

### 14. Fixed Assets, net:

The major categories of Bank premises and equipment, net of accumulated depreciation, in accordance with guidelines established by the SBIF are as follows:

	2008	2007
	MCh\$	MCh\$
Land and buildings	129,283	136,660
Machinery and equipment	66,970	68,405
Furniture and fixtures	4,408	5,796
Vehicles	1,126	1,294
Other	3,582	3,131
<b>Total</b>	<b>205,369</b>	<b>215,286</b>

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### 15. Other Assets:

As of December 31, 2008 and 2007, other assets are detailed as follows:

	2008	2007
	MCh\$	MCh\$
Assets held for leasing	42,414	44,424
Balances with domestic branches	16,399	—
Other accounts and notes receivable	10,411	82,436
Transactions in progress	8,960	18,022
VAT receivable	6,785	8,140
Commissions receivable	6,724	1,940
Assets received or awarded as payment	4,086	6,040
Prepaid expenses	2,438	4,533
Materials and supplies	975	705
Additional consideration paid on purchase of mortgage bonds	888	1,134
Rental guarantees	840	1,002
Accounts receivable for sale of assets received in lieu of payment	584	3,277
Assets to securitized	—	6,895
Lawsuits in collection process	—	358
Other	8,799	10,708
<b>Total</b>	<b>110,303</b>	<b>189,614</b>

### 16. Currents Accounts and Other Demand Deposits:

As of December 31, 2008 and 2007, currents accounts and other demand deposits are detailed as follows:

	2008	2007
	MCh\$	MCh\$
Current accounts	2,534,753	2,619,582
Other demand liabilities	292,593	383,466
Other demand deposits and accounts	179,915	306,142
<b>Total</b>	<b>3,007,261</b>	<b>3,309,190</b>

### 17. Saving Accounts and Time Deposits:

As of December 31, 2008 and 2007, saving accounts and time deposits are detailed as follows:

	2008	2007
	MCh\$	MCh\$
Time deposits	8,309,719	7,834,881
Term savings accounts	157,271	151,510
Other term balances payable	5,600	4,342
<b>Total</b>	<b>8,472,590</b>	<b>7,990,733</b>

**18. Debt Issued:**

As of December 31, 2008 and 2007, Debt issued are detailed as follows:

	2008	2007
	MCh\$	MCh\$
Bonds	994,583	841,581
Subordinated bonds	555,576	486,124
Mortgage bonds	350,429	465,471
<b>Total</b>	<b>1,900,588</b>	<b>1,793,176</b>

In 2008, Banco de Chile issued ordinary bonds in Unidades de Fomento divided into two series, "Y" and "X". The Y series was issued for an amount of MCh\$79,400 (historic pesos) with a maturity of 5 years and a coupon rate of 3.3%. The X series was issued for an amount of MCh\$77,810 (historic) with a maturity of 6 years and a coupon rate of 2.5%.

During 2008, Banco de Chile issued subordinated bonds with a 25-year maturity. They were issued in Unidades de Fomento and the issuance totaled MCh\$53,916 (historic pesos). They accrued interest at an annual rate of 4.5%.

In the period between March and November 2007, Banco de Chile issued ordinary bonds in Unidades de Fomento divided into three series, "S", "U" and "W". The S and U series were issued for an amount of MCh\$113,730 (historic pesos), with a maturity of 10 years and a coupon rates of 3.2% and 3.7%, respectively. The W series was issued for an amount of MCh\$77,514 (historic) with a maturity of 5 years and a coupon rate of 3.1%.

During April 2007, Banco de Chile issued subordinated bonds with a 24-year maturity. They were issued in Unidades de Fomento and the issuance totaled MCh\$36,919 (historic). They accrued interest at an annual rate of 4.5%.

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## 19. Deferred Taxes and Current Taxes:

### (a) Deferred Taxes:

The Bank and its subsidiaries have recorded in the Financial Statements the effects of deferred taxes and amortization of its complementary accounts, as provided by the Chilean Association of Accountants. The movements and effects from deferred taxes are shown on the following table:

	Proforma Balance as of December 31, 2007 (Historical)	Net Variation 2008	Balance as of December 31, 2008
	MCh\$	MCh\$	MCh\$
<b>Debits Difference</b>			
Allowances for loan losses	25,390	12,112	37,502
Obligations with repurchase agreements	4,596	4,598	9,194
Leasing equipment	3,333	(22)	3,311
Assets at market value	79	(892)	(813)
Personnel provisions	2,187	1,357	3,544
Staff vacations	2,791	266	3,057
Accrued interests and indexation adjustments from past due loans	1,623	760	2,383
Staff severance indemnities	1,094	(199)	895
Other adjustments	12,192	(760)	11,432
<b>Net assets</b>	<b>53,285</b>	<b>17,220</b>	<b>70,505</b>
<b>Credits Difference</b>			
Investments with repurchase agreements	4,520	3,323	7,843
Depreciation and price-level restatement of fixed assets	4,257	5,747	10,004
Transitory assets	4,564	185	4,749
Other adjustments	7,817	(1,530)	6,287
<b>Net liabilities</b>	<b>21,158</b>	<b>7,725</b>	<b>28,883</b>
<b>Deferred taxes with an effect on equity</b>			
Unrealized gains and losses on available-for-sale investments	(479)	(2,939)	(3,418)
<b>Total deferred tax on equity</b>	<b>(479)</b>	<b>(2,939)</b>	<b>(3,418)</b>
<b>Net liability</b>	<b>20,679</b>		<b>25,465</b>

**(b) Current Tax:**

As of December 31, 2008 and 2007, Current Tax is detailed as follows:

**i. Income tax provision:**

	2008	2007
	MCh\$	MCh\$
Income taxes, 17% rate	45,091	32,507
Less:		
Monthly prepaid taxes (PPM)	(33,909)	(27,866)
PPM on accumulated losses	(7)	—
Credit for training expenses	(1,409)	(1,040)
Credit for purchase of fixed assets	(394)	(21)
Other	(319)	(1,029)
<b>Total</b>	<b>9,053</b>	<b>2,551</b>

**ii. Income Tax:**

As of December 31, 2008, the income tax provision presented in the Consolidated Statements of Comprehensive Income shows a charge of MCh\$37,810 (MCh\$35,251 in 2007), detailed as follows:

	2008	2007
	MCh\$	MCh\$
Tax expense	(43,920)	(29,639)
Deferred tax effect for the year	9,495	(4,167)
Non deductible expenses (Art. 21)	(2,485)	(1,445)
Foreign branches taxes	(900)	—
<b>Income tax expense</b>	<b>(37,810)</b>	<b>(35,251)</b>

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## 20. Provisions:

### (a) Allowances for credit risk:

Credit risk allowances, included in the Consolidated Statement of Comprehensive Income, are explained as follows:

	Loans to customers											
	Loans and advance to banks		Commercial loans		Mortgage loans		Consumer loans		Contingent loans		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Provisions established:												
- Individual	(107)	—	(71,080)	(66,141)	—	—	—	—	(1,094)	(627)	(72,281)	(66,768)
- Group	—	—	(4,586)	(2,221)	(5,780)	(3,199)	(95,602)	(48,230)	—	—	(105,968)	(53,650)
<b>Provisions established, net</b>	<b>(107)</b>	<b>—</b>	<b>(75,666)</b>	<b>(68,362)</b>	<b>(5,780)</b>	<b>(3,199)</b>	<b>(95,602)</b>	<b>(48,230)</b>	<b>(1,094)</b>	<b>(627)</b>	<b>(178,249)</b>	<b>(120,418)</b>
Provisions released:												
- Individual	—	45	8	226	—	—	—	—	—	—	8	271
- Group	—	—	—	—	—	37	—	—	—	—	—	37
<b>Provisions released, net</b>	<b>—</b>	<b>45</b>	<b>8</b>	<b>226</b>	<b>—</b>	<b>37</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>8</b>	<b>308</b>
<b>Recovery of written-off assets</b>	<b>—</b>	<b>—</b>	<b>16,653</b>	<b>19,502</b>	<b>3,391</b>	<b>4,637</b>	<b>19,604</b>	<b>20,330</b>	<b>—</b>	<b>—</b>	<b>39,648</b>	<b>44,469</b>
<b>Provisions, net</b>	<b>(107)</b>	<b>45</b>	<b>(59,005)</b>	<b>(48,634)</b>	<b>(2,389)</b>	<b>1,475</b>	<b>(75,998)</b>	<b>(27,900)</b>	<b>(1,094)</b>	<b>(627)</b>	<b>(138,593)</b>	<b>(75,641)</b>

As of December 31, 2008 and 2007, credit risk allowances are detailed as follows:

	Assets before allowance		Allowance		Net assets	
	2008	2007	2008	2007	2008	2007
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Loans to customers:</b>						
Commercial loans	9,453,444	8,532,668	(124,777)	(87,019)	9,328,667	8,445,649
Mortgage loans	2,308,013	2,170,160	(11,199)	(8,356)	2,296,814	2,161,804
Consumer loans	1,887,548	1,928,393	(91,225)	(74,113)	1,796,323	1,854,280
<b>Total</b>	<b>13,649,005</b>	<b>12,631,221</b>	<b>(227,201)</b>	<b>(169,488)</b>	<b>13,421,804</b>	<b>12,461,733</b>
<b>Loans and advance to banks</b>	<b>322,308</b>	<b>477,716</b>	<b>(316)</b>	<b>(228)</b>	<b>321,992</b>	<b>477,488</b>

Provisions for contingent loans correspond to the transactions detailed in Note 26(b).

**(b) Other provisions:**

Provisions included within liabilities are detailed as follows:

	2008	2007
	MCh\$	MCh\$
Provision for minimum dividends	190,698	—
Provisions for personnel benefits and payroll	43,821	45,755
Additional loan allowance	38,880	23,216
Cobranding allowance	10,688	7,326
Allowance for contingent loan risks	5,580	4,890
Allowance for credit card risk fund	527	513
Civil lawsuit allowance	483	1,109
Country risk allowance	313	354
<b>Total</b>	<b>290,990</b>	<b>83,163</b>

**21. Other Liabilities:**

As of December 31, 2008 and 2007, other liabilities are detailed as follows:

	2008	2007
	MCh\$	MCh\$
Accounts and notes payable	82,814	58,219
VAT payable	7,829	7,206
Unearned interest on leasing transactions	7,568	8,039
Pending transactions	3,407	7,964
Deferred income	2,359	4,257
Balances with branches	—	5,728
Other	3,073	3,246
<b>Total</b>	<b>107,050</b>	<b>94,659</b>

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## 22. Shareholders' equity:

### (a) Shareholders' equity:

#### i. Subscribed and paid shares:

As of December 31, 2008, the paid-in capital of Banco de Chile is represented by 80,879,895,984 registered shares (71,996,083,216 in 2007), with no par value, subscribed and fully paid, distributed in 72,436,034,844 ordinary shares and 8,443,861,140 ordinary "Banco de Chile-S" series shares.

- On January 1, 2008, as a result of the merger between Banco de Chile and Citibank Chile, 8,443,861,140 nominative, ordinary shares with no par value, of the "Banco de Chile-S" series, that were given to the shareholders of Citibank Chile, in the proportion of 8,443.86114 shares of Banco de Chile for each share of Citibank Chile.

- As agreed by Banco de Chile shareholders at the Extraordinary Shareholders' Meeting held May 17, 2007, during 2008, 439,951,628 shares were subscribed and fully paid, detailed as follows:

	Number of shares
March 2008	120,000,000
May 2008	319,951,628
<b>Total</b>	<b>439,951,628</b>

As of December 31, 2008, all of the newly issued shares agreed upon by shareholders at the aforementioned meeting have been subscribed and fully paid.

#### ii. Approval and payment of dividends:

In the Ordinary Shareholders' Meeting held on March 27, 2008, the Bank's shareholders agreed to distribute and pay dividend No. 196 amounting to Ch\$3.359690 per common share of Banco de Chile (Ch\$2,158.14/ADS), with a charge to retained earnings. Shareholders also agreed to distribute and pay a dividend of Ch\$2.626161 per "Banco de Chile-S" series share with a charge to Citibank Chile retained earnings.

#### iii. Provision for minimum dividends:

As indicated in Note 3 (a) on Accounting Changes, the Board of Directors established a minimum dividend distribution policy for 2008 of 70% of net income. Accordingly, the Bank recorded a liability under the line item "provisions" for an amount of MCh\$190,698 against "Retained earnings". Until 2007, dividends were recorded when declared.

#### iv. Other comprehensive income:

As indicated in Note 2 (ñ), the cumulative translation adjustment is generated from the Bank's translation of its investments in foreign related companies, as it records the effects of foreign currency translation for these items in equity.

In accordance with Note 2 (h), the fair market value adjustment for available-for-sale investments is generated by fluctuations in the fair value of that portfolio, with a charge or credit to equity, net of deferred taxes.

### (b) Capital Requirements:

In accordance with the General Banking Law, the Bank must maintain a minimum ratio of Effective Equity to Consolidated Risk-Weighted Assets of 8%, net of required provisions and a minimum ratio of Basic Capital to Total Consolidated Assets of 3%, net of required provisions. However, because of the 2008 merger of Banco de Chile and Citibank Chile, the SBIF, through Resolution No. 209 dated December 26, 2007, established that the institution is obligated to maintain an Effective Equity to Consolidated Risk-Weighted Assets ratio no less than 10%.

For these purposes, Basic capital is equivalent to the Bank's paid-in capital and reserves. Effective equity and assets are considered on a consolidated basis including subsidiaries. Effective equity is calculated based on Basic capital with the following adjustments: a) addition of subordinated bonds with up to 50% of the Basic capital and additional provisions, b) deduction of the balance of assets related to goodwill or overpayments made to investments in other companies that are not consolidated.

Assets are weighted based on risk categories, which are assigned a risk percentage in accordance with the amount of capital necessary to support each of the assets. There are 5 risk categories (0%, 10%, 20%, 60% and 100%). For example, cash, deposits in other banks and financial instruments issued by the Central Bank have 0% risk, which means that, based on current standards, no capital is required to support these assets. Fixed assets have 100% risk, which means that the Bank must have minimum capital equivalent to 8% of the value of these assets and, in Banco de Chile's case, 10%.

All derivative instruments traded over-the-counter are considered in determining risk assets with a conversion factor applied to their notional value, thus obtaining the amount of exposure to credit risk (or "credit equivalent"). Off-balance sheet contingent loans are also considered "credit equivalents", for weighting.

Basic Capital and Effective Equity as of December 31, 2008 and 2007, are detailed as follows:

	Consolidated Assets		Risk-weighted assets	
	2008	2007	2008	2007
	MCh\$	MCh\$	MCh\$	MCh\$
<b>Balance sheet assets (net of provisions)</b>				
Cash and due from banks	751,223	511,779	318	49
Transactions in the course of collection	469,580	368,855	47,744	23,075
Trading securities	679,843	1,668,851	139,565	321,741
Securities purchased under resale agreement	75,519	75,282	75,519	75,282
Derivative instruments	904,726	438,043	829,707	150,275
Loans and advance to banks	321,992	477,488	63,324	16,891
Loans to customers	13,421,804	12,461,733	12,503,207	12,034,449
Available for sale instruments	1,071,438	229,127	253,285	15,649
Held to maturity instruments	—	—	—	—
Investments in other companies	11,377	9,958	11,377	9,958
Intangibles assets	34,763	31,806	30,299	27,229
Fixed assets, net	205,369	215,286	205,316	215,286
Current taxes assets	—	—	—	—
Deferred taxes assets	70,505	58,027	7,041	5,919
Other assets	110,303	189,614	110,221	189,614
<b>Subtotal</b>			<b>14,276,923</b>	<b>13,085,417</b>
<b>Off-balance sheet assets</b>				
Contingent loans	1,473,200	1,438,430	877,033	850,787
<b>Total risk-weighted assets</b>			<b>15,153,956</b>	<b>13,936,204</b>

	Amount		Percentage	
	2008	2007	2008	2007
	MCh\$	MCh\$	%	%
Basic Capital (*)	1,297,735	1,207,253	6.56	6.59
Effective Equity	1,774,448	1,667,630	11.71	11.97

(\*) Beginning in January 2008, basic capital corresponds to the equity attributable to equity holders in the Consolidated Statement of Financial Situation.

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## 23. Maturity of Assets and Liabilities:

### (a) Maturity of Financial Assets:

The table below shows details of loans and other financial assets grouped in accordance with their remaining maturity, including accrued interest as of December 31, 2008 and 2007, respectively. Trading and available for sale securities are included at their fair value and according to the term on which they can be sold.

	2008				Total
	Less than 1 year	Over 1 year/ less than 3	Over 3 years/ less than 6	Over 6 years	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Assets:</b>					
Cash and due from banks	751,223	—	—	—	751,223
Transactions in the course of collection	469,580	—	—	—	469,580
Trading securities	679,843	—	—	—	679,843
Securities purchased under resale agreement	75,519	—	—	—	75,519
Derivative instruments	593,300	118,958	108,219	84,249	904,726
Loans and advance to banks (**)	322,308	—	—	—	322,308
Loans to customers (*) (**)	6,120,876	2,603,322	1,797,670	2,934,948	13,456,816
Available for sale instruments	687,112	113,257	121,257	149,812	1,071,438
Held to maturity instruments	—	—	—	—	—
<b>Total assets</b>	<b>9,699,761</b>	<b>2,835,537</b>	<b>2,027,146</b>	<b>3,169,009</b>	<b>17,731,453</b>

	2007				Total
	Less than 1 year	Over 1 year/ less than 3	Over 3 years/ less than 6	Over 6 years	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Assets:</b>					
Cash and due from banks	511,779	—	—	—	511,779
Transactions in the course of collection	368,855	—	—	—	368,855
Trading securities	1,668,851	—	—	—	1,668,851
Securities purchased under resale agreement	75,282	—	—	—	75,282
Derivative instruments	286,367	81,896	58,684	11,096	438,043
Loans and advance to banks (**)	477,716	—	—	—	477,716
Loans to customers (*) (**)	5,857,049	2,279,070	1,771,783	2,479,344	12,387,246
Available for sale instruments	112,328	73,688	372	42,739	229,127
Held to maturity instruments	—	—	—	—	—
<b>Total assets</b>	<b>9,358,227</b>	<b>2,434,654</b>	<b>1,830,839</b>	<b>2,533,179</b>	<b>16,156,899</b>

(\*) Includes only current effective loans as of each year-end. Consequently, interest receivable from contingent loans which amount to MCh\$2,060 (MCh\$1,895 in 2007) is excluded. Loans reclassified to the past-due category which amounts to MCh\$81,950 (MCh\$69,724 in 2007) and overdue loans amounting to MCh\$108,179 (MCh\$172,356 in 2007), of which MCh\$86,306 (MCh\$142,647 in 2007) were overdue by less than 30 days.

(\*\*) These balances are not presented net of their related provision.

**(b) Maturity of Financial Liabilities:**

The following details deposits, borrowings and other obligations classified according to their maturity dates, including interest accrued as of December 31, 2008 and 2007.

	2008				Total
	Less than 1 year	Over 1 year/ less than 3	Over 3 years/ less than 6	Over 6 years	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Liabilities:</b>					
Currents accounts and demand deposits	3,007,261	—	—	—	3,007,261
Transactions in the course of payment	141,988	—	—	—	141,988
Securities sold under repurchase agreement	420,658	—	—	—	420,658
Saving accounts and time deposits (*)	7,739,224	576,095	—	—	8,315,319
Derivative instruments	595,315	99,888	92,362	75,234	862,799
Borrowings from financial institutions	1,318,978	179,571	—	—	1,498,549
Debt issued	497,277	451,265	718,750	233,296	1,900,588
Other financial obligations	49,477	13,068	5,183	25,980	93,708
<b>Total liabilities</b>	<b>13,770,178</b>	<b>1,319,887</b>	<b>816,295</b>	<b>334,510</b>	<b>16,240,870</b>

	2007				Total
	Less than 1 year	Over 1 year/ less than 3	Over 3 years/ less than 6	Over 6 years	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Liabilities:</b>					
Currents accounts and demand deposits	3,309,190	—	—	—	3,309,190
Transactions in the course of payment	105,438	—	—	—	105,438
Securities sold under repurchase agreement	408,078	—	—	—	408,078
Saving accounts and time deposits (*)	7,506,018	333,206	—	—	7,839,224
Derivative instruments	299,660	111,791	43,772	19,908	475,131
Borrowings from financial institutions	863,682	19,167	39	8	882,896
Debt issued	131,050	490,696	447,431	723,999	1,793,176
Other financial obligations	68,435	1,776	2,010	1,003	73,224
<b>Total liabilities</b>	<b>12,691,551</b>	<b>956,636</b>	<b>493,252</b>	<b>744,918</b>	<b>14,886,357</b>

(\*) Excluding term saving accounts, which amount to MCh\$157,271 (MCh\$151,509 in 2007).

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## 24. Foreign Currency Balances:

The Consolidated Statements of Financial Situation includes assets and liabilities in foreign currencies and readjusted according to the relevant exchange rate, in the following amounts:

	Payable in					
	Foreign currency		Chilean pesos (*)		Total	
	2008	2007	2008	2007	2008	2007
	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$	ThUS\$
<b>ASSETS:</b>						
Cash, deposits in banks and transactions in the course of collection	926,042	442,408	—	—	926,042	442,408
Trading securities	98,898	974,164	6,907	57,313	105,805	1,031,477
Investment securities	163,539	—	—	—	163,539	—
Loans to customers, loans and advance to banks	3,262,684	2,358,530	1,229	2,479	3,263,913	2,361,009
Lease contracts	—	—	147,453	162,415	147,453	162,415
Other assets (1)	1,652,217	1,170,908	—	2,314	1,652,217	1,173,222
<b>Total assets</b>	<b>6,103,380</b>	<b>4,946,010</b>	<b>155,589</b>	<b>224,521</b>	<b>6,258,969</b>	<b>5,170,531</b>
<b>LIABILITIES:</b>						
Deposits and transactions in the course of payment	3,270,362	2,618,320	82,479	68	3,352,841	2,618,388
Borrowings from domestic banks	101,005	189,549	—	—	101,005	189,549
Borrowings from foreign banks	2,377,065	1,584,160	9,265	—	2,386,330	1,584,160
Other liabilities	337,207	658,545	339	4,769	337,546	663,314
<b>Total liabilities</b>	<b>6,085,639</b>	<b>5,050,574</b>	<b>92,083</b>	<b>4,837</b>	<b>6,177,722</b>	<b>5,055,411</b>

(\*) Includes operations denominated in foreign currencies and payable in Chilean pesos or operations whose value is indexed to the exchange rate.

(1) As of December 31, 2008 and 2007, notional amounts of derivative instruments are presented on a net basis.

## 25. Related Party Transactions:

In accordance with the General Banking Law and the Superintendency's instructions, related party transactions are defined as those persons or entities, related directly or indirectly to the owners or management of the Bank and its subsidiaries.

### (a) Loans granted to related parties:

As of December 31, 2008 and 2007 loans granted to related parties are as follows:

	Loans		Past due loans		Total		Collateral (*)	
	2008	2007	2008	2007	2008	2007	2008	2007
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Productive companies	279,287	197,502	—	—	279,287	197,502	104,140	57,434
Investment companies	34,439	37,759	—	—	34,439	37,759	10	13
Individuals (**)	4,696	4,724	—	—	4,696	4,724	4,195	4,312
<b>Total</b>	<b>318,422</b>	<b>239,985</b>	<b>—</b>	<b>—</b>	<b>318,422</b>	<b>239,985</b>	<b>108,345</b>	<b>61,759</b>

(\*) Includes only those amounts of collateral computable towards individual credit limits as established in Article No. 84 of the General Banking Law, valued in accordance with instructions of the Superintendency of Banks and Financial Institutions.

(\*\*) Includes only those obligations of individuals, whose debts are equal to or greater than U.F. 3,000.

**(b) Other related party transactions:**

The Bank and its subsidiaries have undertaken related party transactions greater than U.F.5,000 (MCh\$107) during 2008 and 2007, as follows:

	Expenses		Revenue	
	2008	2007	2008	2007
	MCh\$	MCh\$	MCh\$	MCh\$
Empresa Nacional de Telecomunicaciones S.A.:				
Telephone expenses	5,448	4,633	—	—
Redbanc S.A.:				
Expenses for electronic funds transfers of the automated teller machines	4,402	4,394	—	—
Operadora de Tarjetas de Crédito Nexus S.A.:				
Service expenses	3,711	3,988	—	—
Consorcio Nacional de Seguros S.A.:				
Service expenses	3,107	—	—	—
Entel Telefonía Local S.A.:				
Telephone expenses	1,743	2,067	—	—
Empresa Periódica La Tercera S.A.:				
Advertising expenses	698	227	—	—
Entel PCS Telecomunicaciones S.A.:				
Telephone expenses	585	628	—	—
Banchile Cia. de Seguros de Vida S.A.:				
Service expenses	458	384	—	—
Plaza Oeste S.A.:				
Rental expenses	438	384	—	—
Soc. Operadora de la Cámara Com. Pagos Alto Valor S.A.:				
Service expenses	395	339	—	—
Artikos S.A.:				
Service expenses	229	230	—	—
Asociación de Bancos e Instituciones Financieras:				
Annual contribution expenses	174	176	—	—
Plaza El Trébol S.A.:				
Rental expenses	161	138	—	—
Parque La Serena S.A.:				
Rental expenses	147	93	—	—
Plaza Antofagasta S.A.:				
Rental expenses	135	159	—	—
Lan Chile S.A.:				
Rental income	—	—	130	136
Service expenses	127	2	—	—
Bolsa de Comercio de Santiago Bolsa de Valores:				
Service expenses	199	406	—	—
Citicorp North America Inc.:				
Services for computer processing	1,551	3,765	—	—
CTI Inc.:				
Received services of connection	888	2,251	—	—
Servicios Financieros Citibank (Chile) S.A.:				
Received Services	—	1,665	—	—
Office rentals	—	—	—	680
Latin America Cash Settlement Unit:				
Services for computer processing	693	627	—	—
Diners Club Argentina:				
Received Services	67	54	—	—
Citicorp North America Trade Service:				
Services for computer processing	—	233	—	—
Citigroup Chile S.A.:				
Revenue from rentals	—	—	496	—
<b>Subtotal</b>	<b>25,356</b>	<b>26,843</b>	<b>626</b>	<b>816</b>
Operations between UF 1,000 and UF 5,000:				
Service expenses	508	377	—	—
Rental expenses	112	85	—	—
Telephone expenses	68	—	—	—
Revenue from rentals	—	—	24	—
<b>Total</b>	<b>26,044</b>	<b>27,305</b>	<b>650</b>	<b>816</b>

In the opinion of Bank's management the related party transactions were carried out at normal market prices prevailing at the date on which they were made.

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## 26. Contingencies, Commitments and Fiduciary Activities:

### (a) Lawsuits and legal proceedings:

In the ordinary course of business, the Bank and its subsidiaries act as defendant or co-defendant in various litigation matters. Although there can be no assurances, the Bank's management believes, based on information currently available, that the ultimate resolution of these legal proceedings are not likely to have a material adverse effect on its results of operations, financial condition, or liquidity. As of December 31, 2008, the Bank has established provisions for this concept in the amount of MCh\$483 (MCh\$1,109 in 2007).

### (b) Contingent loans:

The following table details the contractual amounts of transactions that oblige the Bank to grant loans and the provisions established for the associated credit risk:

	2008	2007
	MCh\$	MCh\$
Immediate available lines of credit	1,644,907	2,434,327
Amounts available to credit card holders	1,468,332	1,232,347
Bank guarantees	1,111,018	1,051,309
Provision for bank guarantees	(4,530)	(4,011)
Guarantees	212,914	185,611
Provision for guarantees	(535)	(278)
Documented letters of credit	154,848	262,291
Provision for documented letters of credit	(515)	(601)
<b>Total</b>	<b>4,586,439</b>	<b>5,160,995</b>

### (c) Fiduciary Activities:

The Bank and its subsidiaries have the following fiduciary activities related to its normal course of business:

	2008	2007
	MCh\$	MCh\$
Securities held in safe custody	27,103,941	5,404,042
Amounts to be collected on behalf of third parties	393,039	532,922
Trustee commissions	—	15,446
<b>Total</b>	<b>27,496,980</b>	<b>5,952,410</b>

**(d) Guarantees granted:**

**i. In subsidiary Banchile Administradora General de Fondos S.A.:**

In compliance with article 226 and subsequent articles of Law 18,045, Banchile Administradora General de Fondos S.A., has designated Banco de Chile as the representative of the beneficiaries of the guarantees it has established and in that character the Bank has issued bank guarantees totaling UF 1,853,818, maturing January 9, 2009.

**ii. In subsidiary Banchile Corredores de Bolsa S.A.:**

For the purposes of ensuring correct and complete compliance with all of its obligations as a Securities Broker, in conformity with the provisions of article 30 and subsequent articles of Law 18,045 on Securities Markets, the company established a guarantee in an insurance policy for UF 20,000, secured from Cía. de Seguros de Crédito Continental S.A., that matures April 22, 2010, naming the Securities Exchange of the Santiago Stock Exchange to represent the creditors.

	2008	2007
	MCh\$	MCh\$
<b>Guarantees:</b>		
Shares to secure short-sale transactions in:		
Securities Exchange of the Santiago Stock Exchange	6,033	1,347
Securities Exchange of the Electronic Stock Exchange of Chile	22,764	34,207
Money Market a Pershing Division of Donaldson, Lufkinn & Jenrette Securities Corporation	78	64
Bank guarantee	—	11
<b>Total</b>	<b>28,875</b>	<b>35,629</b>

In conformity with the provisions of internal stock market regulations, and for the purpose of securing the broker's correct performance, the company established a pledge on its share of the Santiago Stock Exchange in favor of that institution, as recorded in Public Deed on September 13, 1990, signed before Santiago public notary Mr. Raúl Perry Pefaur, and on its share in the Electronic Stock Exchange of Chile in favor of that institution, as recorded in a contract entered into by both parties on May 16, 1990.

Banchile Corredores de Bolsa S.A. keeps an insurance policy current with La Interamericana - Compañía de Seguros Generales S.A. that expires January 2, 2009, and that covers employee fidelity, physical losses, falsification or adulteration, and currency fraud with a coverage amount equivalent to US\$ 5,000,000.

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### iii. In subsidiary Banchile Corredores de Seguros Ltda.:

In accordance with article 58, letter D of D.F.L. 251, as of December 31, 2008 the company maintains two insurance policies that cover it in the case of any possible damage as a consequence of infractions of the Law, regulations and supplemental standards that regulate insurance brokers, and especially when the noncompliance is related to acts, errors or omissions by the broker, its representatives, attorneys-in-fact or dependents that participate in brokerage activities.

The policies are detailed below:

- a) Liability policy for errors and omissions: For U.F. 60,000. The insurance company is entitled to present a counterclaim against the broker for all of the disbursements the broker would have made to pay third-parties affected by faulty brokerage by the broker.
- b) Civil liability policy: For UF 500 in order to safeguard the broker against any possible third-party lawsuits. The insurance company is entitled to request reimbursement from the broker for the amount paid to the third-party claimant.

## 27. Fees and Commissions:

The income and expenses for fees and commissions shown in the Consolidated Statements of Comprehensive Income refers to the following items:

	2008	2007
	MCh\$	MCh\$
<b>Income from fees and commissions</b>		
Card services	63,108	57,925
Collections and payments	50,493	53,818
Investments in mutual funds and others	41,131	42,137
Lines of credit and overdrafts	32,205	28,728
Trading and securities management	20,140	29,570
Insurance brokerage	18,210	12,542
Portfolio management	12,240	13,178
Guarantees and letters of credit	9,108	9,991
Financial advisory services	6,773	1,319
Other fees earned	22,491	22,633
<b>Subtotal</b>	<b>275,899</b>	<b>271,841</b>
<b>Expenses from fees and commissions</b>		
Credit card transactions	(26,502)	(22,887)
Sales force fees	(19,325)	(16,333)
Fees for collections and payments	(7,107)	(5,742)
Sale of mutual fund units	(2,377)	(2,929)
Fees for securities transactions	(1,146)	(3,488)
Other fees	(3,578)	(4,962)
<b>Subtotal</b>	<b>(60,035)</b>	<b>(56,341)</b>
<b>Total</b>	<b>215,864</b>	<b>215,500</b>

Fees on mortgage finance loans operations are shown in the Consolidated Statements of Comprehensive Income under the line item "Interest Revenue".

## 28. Gains (Losses) from Trading and Brokerage Activities:

The gains (losses) from trading and brokerage activities is detailed as follows:

	2008	2007
	MCh\$	MCh\$
Derivative Instruments	343,882	(18,703)
Trading Securities	42,330	78,900
Sale of loans portfolio	1,717	627
Sale of available-for-sale instruments	(173)	29
Net loss of other transactions	(53)	(2,213)
<b>Total</b>	<b>387,703</b>	<b>58,640</b>

## 29. Other Operating Income:

During 2008 and 2007, the Bank and its subsidiaries presented the following under other operating income:

	2008	2007
	MCh\$	MCh\$
Gain on sale of assets and liabilities of New York and Miami Branches	38,459	—
Gain on sale of shares	10,352	37
Income from assets received in lieu of payment	7,570	16,913
Rental income	4,262	4,294
Expenses recovery	1,066	1,541
Income from sale of leased assets	457	97
Foreign trade income	296	47
Fiduciary and trustee commissions	137	155
Gain on sale of fixed assets	110	520
Insurance premium	9	557
Other income	5,668	3,274
<b>Total</b>	<b>68,386</b>	<b>27,435</b>

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### 30. Staff Expenses:

Staff expenses in 2008 and 2007 are detailed as follows:

	2008	2007
	MCh\$	MCh\$
Remunerations	152,763	170,934
Bonuses	69,741	57,441
Staff severance indemnities	42,891	8,817
Lunch and health benefits	16,316	14,511
Training expenses	1,886	1,894
Share-based compensation	—	1,460
Other personnel expenses	22,443	21,216
<b>Total</b>	<b>306,040</b>	<b>276,273</b>

### 31. Administrative Expenses:

As of December 31, 2008 and 2007, administrative expenses are detailed as follows:

	2008	2007
	MCh\$	MCh\$
IT and communications	36,037	31,440
Advertising	26,447	20,990
Maintenance and repair of fixed assets	22,453	20,424
Office rental	15,829	16,353
Lighting, heating and other utilities	10,415	7,950
Taxes, property taxes and contributions	8,904	7,981
Office supplies	7,985	7,422
Security and valuables transport services	7,082	5,373
Outsources services	5,341	9,000
Rent ATM area	3,501	3,363
Representation and transferring of personnel	3,365	3,467
Legal and notary	3,257	2,021
P.O. box, mail and postage	3,134	2,388
Board of Directors' expenses	2,500	2,756
Insurance premiums	1,692	1,546
Credit card risk fund	1,550	1,080
Equipment rental	1,228	943
Donations	1,211	1,072
Other	15,931	25,349
<b>Total</b>	<b>177,862</b>	<b>170,918</b>

### 32. Other Operating Expenses:

During 2008 and 2007, the Bank and its subsidiaries incurred the following other operating expenses:

	2008	2007
	MCh\$	MCh\$
Additional provisions on loans	16,997	320
Cobranding	10,844	7,290
Provision for other assets	5,047	—
Write-off assets received in lieu of payment	4,188	12,232
Write-off Basel process	4,173	2,301
Write-offs and provisions for fraud	1,687	258
Sonda transaction	1,173	—
Write-off fixed assets	1,154	—
Expenses to maintain assets received in lieu of payment	916	1,333
Expenses and taxes Visa and Mastercard	726	713
Prior year expenses	586	—
Write-off software	431	—
Mortgage life insurance	343	570
Provision for recovery of leased assets	291	178
Advisory services	244	33
Losses on sale of fixed assets	228	74
Contributions to government organizations	67	394
Country risk provisions	—	304
Provisions for assets received in lieu of payment	—	193
Other	5,278	3,066
<b>Total</b>	<b>54,373</b>	<b>29,259</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BANCO DE CHILE AND SUBSIDIARIES  
AS OF DECEMBER 31, 2008 AND 2007

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)  
(EXPRESSED IN MILLIONS OF CHILEAN PESOS)

### 33. Directors' Expenses and Remunerations:

As agreed at the Shareholders Meeting, during 2008 and 2007 the Bank and its subsidiaries have paid and provided with charges to income, remunerations to Directors as follows:

Name of Director	Remunerations		Fees for attending Board meetings		Fees for attending Committees and Subsidiary Board meetings (1)		Consulting		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Pablo Granifo Lavín	363 <sup>(*)</sup>	321 <sup>(*)</sup>	51	36	332	215	—	—	746	572
Andrónico Luksic Craig	147	147	9	13	—	—	—	—	156	160
Jorge Awad Mehech	49	49	25	24	74	80	—	—	148	153
Jacob Ergas Ergas	49	49	19	17	47	66	—	—	115	132
Jaime Estévez Valencia	49	37	26	19	76	54	—	—	151	110
Guillermo Luksic Craig	49	49	13	7	—	—	—	—	62	56
Rodrigo Manubens Moltedo	49	49	25	24	66	112	—	49	140	234
Gonzalo Menéndez Duque	49	49	23	25	121	134	—	—	193	208
Francisco Pérez Mackenna	49	49	23	23	62	67	—	—	134	139
Thomas Fürst Freiwirth	49	49	21	23	56	69	—	—	126	141
Juan Andrés Fontaine Talavera	38	—	20	—	46	—	—	—	104	—
Hernán Büchi Buc	12	37	4	17	14	33	10	—	40	87
Jorge Ergas Heymann	1	49	2	17	2	42	—	—	5	108
Jorge Díaz Vial	—	72	—	11	—	24	—	1	—	108
Fernando Cañas Berkowitz	—	36	—	10	—	103	—	—	—	149
Segismundo Schulin-Zeuthen Serrano	—	12	—	5	—	12	—	14	—	43
Máximo Pacheco Matte	—	12	—	3	—	—	—	—	—	15
Other subsidiaries directors	—	—	—	—	123	91	—	—	123	91
<b>Total</b>	<b>953</b>	<b>1,066</b>	<b>261</b>	<b>274</b>	<b>1,019</b>	<b>1,102</b>	<b>10</b>	<b>64</b>	<b>2,243</b>	<b>2,506</b>

(1) Includes fees paid to members of the Advisory Committee of Banchile Corredores de Seguros Ltda., equivalent to MCh\$22 (MCh\$20 in 2007).

(\*) Includes a provision of MCh\$216 (MCh\$209 in 2007) for an incentive whose payment is subject to compliance with the Bank's forecasted earnings.

Travel and other related expenses amount to MCh\$279 (MCh\$270 in 2007).

### 34. Merger Expenses:

During 2008, the following expenses were recorded as a result of the merger between Banco de Chile and Citibank Chile:

	2008
	MCh\$
Staff severance indemnities and personnel bonuses	34,962
Write-off of fixed assets and intangibles assets	3,374
Computer development	2,020
Advertising	1,559
Training and other personnel expenses	978
Other	1,869
<b>Total</b>	<b>44,762</b>

### 35. Subsequents Events:

In Management's opinion there are no significant subsequent events between December 31, 2008 and the date of issuance of these consolidated financial statements that affect or could affect the consolidated financial statements of the Bank and subsidiaries.

**Héctor Hernández G.**  
General Accounting Manager

**Fernando Cañas B.**  
Chief Executive Officer

## REPORT OF INDEPENDENT AUDITORS

(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH – SEE NOTE 2b)



To the Shareholders of  
Banco de Chile:

1. We have audited the accompanying consolidated statements of financial situation of Banco de Chile and Subsidiaries (the "Bank") as of December 31, 2008, and the proforma consolidated statements of financial situation of Banco de Chile – Citibank Chile and Subsidiaries as of December 31, 2007, and the related consolidated statements of comprehensive income, of changes in equity and cash flows for the year ended as of December 31, 2008, and the proforma consolidated statements of comprehensive income, of changes in equity and cash flows for the year ended as of December 31, 2007. These financial statements (which include their related notes) are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of Citibank Chile and subsidiaries for the year ended as of December 31, 2007, whose balances are included in the proforma financial statements for that year, were audited by other auditors, whose report dated January 18, 2008, expressed an unqualified opinion in those statements.
2. We conducted our audits in accordance with generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management as well as evaluating the overall financial statement presentation. We believe that our audits, and the report of other auditors, provide a reasonable basis for our opinion.
3. In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco de Chile and Subsidiaries as of December 31, 2008 and the proforma financial position of Banco de Chile – Citibank Chile and Subsidiaries as of December 31, 2007, and the comprehensive results of its operations, changes in equity and cash flows for the year ended as of December 31, 2008, and the proforma comprehensive results of its operations, changes in equity and cash flows for the year ended as of December 31, 2007, in conformity with generally accepted accounting principles in Chile and accounting regulations established by the Chilean Superintendency of Banks and Financial Institutions.
4. As explained in Note N° 4 (a) to the consolidated financial statements, on January 1, 2008, the merger between Banco de Chile and Banco Citibank Chile was completed, thus complying with the agreement reached in their respective Extraordinary Shareholders' Meetings held on December 27, 2007. Consequently, beginning on that date, Banco de Chile is the legal successor entity of Citibank Chile. The Superintendency of Banks and Financial Institutions approved the merger via Resolution No. 3 dated January 8, 2008. The proforma consolidated financial statements as of December 31, 2007, are presented only for comparative purposes, given retroactive effect to the merger with Banco Citibank Chile.
5. As explained in Note N° 3 to the consolidated financial statements, starting 2008 the Bank recognized a provision for minimum dividends payment according to the Compendium of Accounting Standards of the Superintendency of Banks and Financial Institutions. In 2008 the Bank modified the presentation format of the financial statements, and starting 2009 must begin applying the new accounting criteria established in the abovementioned Compendium of Standards.

Eduardo Rodríguez B.

Santiago, Chile  
January 29, 2009

# Banco de Chile

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**Banco de Chile**

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