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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

Annual Report Pursuant to Section 13 or

15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2004

Commission File Number 001-15266

BANCO DE CHILE

(Exact name of Registrant as specified in its charter)

BANK OF CHILE

(Translation of Registrant s name into English)

Republic of Chile

(Jurisdiction of incorporation or organization)

Banco de Chile

Ahumada 251

Santiago, Chile

(562) 653-1111

(Address of principal executive offices)

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

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

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

None

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

None

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

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

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

Yes x   No ¨

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

Item 17 ¨   Item 18 x

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THE MERGER

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

PRESENTATION OF FINANCIAL INFORMATION

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

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

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

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

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

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

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

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

MACRO-ECONOMIC AND MARKET DATA

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

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Item 3. Key Information

SELECTED FINANCIAL DATA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(8) Total liabilities divided by bank regulatory capital.

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

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

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

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

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Exchange Rates

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

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

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

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

Source: Central Bank.

(1) Nominal amounts.

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

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

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

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

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

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RISK FACTORS

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

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

Risks Relating to our Operations and the Banking Industry

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

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

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

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

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

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

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

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

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

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

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

Increased competition and industry consolidation may adversely affect our operations.

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

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

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

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

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

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

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

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

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

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

Our results of operations are affected by interest rate volatility.

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

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

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

Risks Relating to our ADSs

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

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

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

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

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

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

You may be unable to exercise preemptive rights.

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

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

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

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

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

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

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

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

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

Risks Relating to Chile

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

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

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

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

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

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

Source: Chilean National Institute of Statistics

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

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

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

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

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

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

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

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

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

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

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE BANK

Overview

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

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

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

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

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

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

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As of December 31, 2004, we had:

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

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

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

History

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

Merger with Banco de A. Edwards

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

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

Neos Project

In 2003, we developed the groundwork for Neos, our technological innovation platform project which was established to improve the quality of our service and increase efficiency. During 2004, we concluded the initial phases of Neos, which consisted of implementing a new management control platform

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which will support internal administration, a customer relationship management system which will initially manage client service requirements and global client information and a new accounting system. From 2005 to 2007, we will launch more sophisticated customer relationship management systems and a core banking system that will manage our main assets and liabilities.

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

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

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

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

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

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

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

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

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

Capital Expenditures

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

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

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

BUSINESS OVERVIEW

Business Strategy

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

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

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- expanding our customer base in Chile by enlarging our distribution network and strengthening our electronic channels;
- enhancing profitability by increasing revenues from fee-based services through the development of new services and active cross-selling of such services to our customers;
- continuing to focus on cost-control measures and otherwise enhancing productivity to improve our existing efficiency standards; and
- further developing the international products and services that we offer to our customers.

The key components of our strategy are described below.

Deliver Superior Customer Service and Expand our Customer Base

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

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

- To expand our high- and middle-income individual customer base, we intend to (1) market a broad range of products and services to high- and middle-income individuals, (2) cross-sell products and services such as mutual funds, lease financing, factoring, insurance and securities brokerage services, (3) develop new services targeted to the specific needs of these customers, (4) develop programs to increase quality of service, (5) develop public relations programs to gain customer loyalty and (6) develop commercial agreements and strategic alliances.
- To increase our lower to middle-income individual customer base, we intend to (1) develop new products and services at competitive prices, (2) strengthen our distribution channels, (3) overhaul the branches that service these clients and (4) reposition our retail banking image by using the Banco Credichile brand name.
- In the middle market companies business area, we intend to increase our lending activities and offerings of fee-based services, such as electronic banking, import-export financial services, financial advisory services and cash management services.
- In the large corporations business area, we are focused on increasing offerings of specialized lending products, treasury and cash management services.

Expand Fee-Based Services

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

Maintain Focus on Operating Efficiencies

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

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

Provide Competitive International Products and Services

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

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

Ownership Structure

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

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Share Repurchase Program

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

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

Under the terms of the share repurchase program:

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

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

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

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Principal Business Activities

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

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

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

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

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

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

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

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

Large Corporations

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

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

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

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

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

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

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

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

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

Middle Market Companies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

International Banking

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

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

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

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

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

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We use our international network in order to:

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

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

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