BANK OF CHILE
Form 20-F
April 26, 2013
Table of Contents

As filed with the Securities and Exchange Commission on April 26, 2013

UNITED STATES

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, 2012

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

Paseo Ahumada 251

Santiago, Chile

(562) 2637-1111

(Address of principal executive offices)

Pedro Samhan E.

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

Telephone: (562) 653-5150

Facsimile: (562) 653-5156

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

(Title of Class)

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

None

(Title of Class)

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: 91,977,302,953

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ IFRS x Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 ¨ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

TABLE OF CONTENTS

Table of Contents

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we have based these forward-looking statements on our expectations and projections about future events, it is possible that actual results may differ materially from our expectations. In many cases, we include a discussion of the factors that are most likely to cause forward-looking statements to differ from actual results together with the forward-looking statements themselves. 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 market risks, including interest rate risk and foreign exchange risk;
- 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, aims, seeks, expect, intend, target, objective, estimate, project, potential, pred could, may, will, should 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 (i) our asset growth and financing plans, (ii) trends affecting our financial condition or results of operations and (iii) 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 could 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 or the United States;
- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies;
- increased costs;
- increased competition and changes in competition or pricing environments, including the effect of new technological developments;

unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms;

natural disasters;

the effect of tax laws on our business; and

the factors discussed under   Risk Factors.

Table of Contents

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 publicly release 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.

THE MERGER

On January 1, 2008, Banco de Chile (the Bank) merged with Citibank Chile 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, 2008 (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 on or after January 1, 2008 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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). References in this annual report to IFRS mean IFRS as issued by the IASB.

Until and including our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2008, we prepared our audited consolidated financial statements in accordance with generally accepted accounting principles in Chile as supplemented by the applicable rules of the *Superintendencia de Bancos e Instituciones Financieras de Chile* (the Superintendency of Banks) (Chilean GAAP), with reconciliations to generally accepted accounting principles in the United States (U.S. GAAP). As required by IFRS 1 *First Time Adoption of International Financial Reporting Standards*, our financial position as of December 31, 2008 and our results of operations for the year ended December 31, 2008 were restated in accordance with IFRS 1 for comparative purposes. Reconciliations and a description of the transition to IFRS, and the effects on our assets, liabilities, equity, net income and cash flows are presented in Note 5 to our audited consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2009 filed with the Securities and Exchange Commission (the SEC) on June 29, 2010. Unless otherwise indicated, the financial information included in this annual report with respect to 2009, 2010, 2011 and 2012 has been derived from financial statements that have been prepared in accordance with IFRS. See Note 2(a) to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report. IFRS differs in certain significant respects from Chilean GAAP. As a result, our financial information presented under IFRS is not directly comparable to any of our financial information presented under Chilean GAAP. Accordingly, readers should avoid such comparison.

Since adopting IFRS, we are no longer required to reconcile our financial statements to U.S. GAAP.

In this annual report, references to $, U.S.$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch$ are to Chilean (see Note 2(u) to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report), and references to UF are to Unidades de Fomento. The UF is an inflation indexed Chilean monetary unit of account with a value in Chilean pesos that is linked to and adjusted daily to reflect changes in the Consumer Price Index (CPI) of the Instituto Nacional de Estadísticas (the Chilean National Statistics Institute). As of December 31, 2012, one UF equaled Ch$22,840.75.

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 as of and for the year ended December 31, 2012 or could be converted into U.S. dollars at the rate indicated. Until November 30, 2011, Banco de Chile applied the observed exchange rate reported by the *Banco Central de Chile* (the Central Bank) in order to translate its financial statements from Chilean pesos to U.S. dollars. However, beginning December 1, 2011, Banco de Chile adopted the

Table of Contents

exchange rate of accounting representation, or spot exchange rate, for such matters. This is also described in Item 3. Key Information Selected Financial Data Exchange Rates. Thus, unless otherwise indicated, the U.S. dollar amounts have been translated from Chilean pesos based on the exchange rate of accounting representation as of December 31, 2012 as determined by our Treasury, on a daily basis, based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange. The exchange rate of accounting representation on April 15, 2013 was Ch$472.10 = U.S.$1.00. As of the same date, the observed exchange rate was Ch$469.24 = U.S.$1.00.

The observed exchange rate reported by the Central Bank is based on the rate for the prior business day in Chile and was the exchange rate specified by the Superintendency of Banks to be used by Chilean banks in the preparation of their financial statements until December 31, 2010.

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 total loans are to loans to customers before deducting allowances for loan losses, and they do not include loans to banks or contingent loans. In addition, all market share data and financial indicators for the Chilean banking system as compared to Banco de Chile s financial information presented in this annual report are based on information released periodically by the Superintendency of Banks, which is published under Chilean GAAP and prepared on a consolidated basis.

In this annual report, total past-due loans refers to the installments that are 90 or more days overdue and the remaining outstanding balance of such loan (principal and interest) overdue. See Item 4. Information on the Company Selected Statistical Information Classification of Loan Portfolio Based on the Borrower s Payment Performance.

According to Chilean regulations and for the purposes of this annual report, regulatory capital (Regulatory Capital) consists of:

- basic capital, which is composed of our paid-in capital, reserves and retained earnings, excluding capital attributable to subsidiaries and foreign branches (Basic Capital); and

- supplementary capital, which is composed of the following: (i) our subordinated bonds, considered at issue price (reduced by 20% for each year during the period commencing six years prior to maturity), but not exceeding 50% of our Basic Capital; plus (ii) our voluntary allowances for loan losses (up to 1.25% of risk-weighted assets to the extent voluntary allowances exceed those that banks are required to maintain by law or regulation); minus (iii) our goodwill and unconsolidated investments in companies (Supplementary Capital).

Certain figures included in this annual report and in our audited consolidated financial statements as of and for the year ended December 31, 2012 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 as of and for the year ended December 31, 2012. Certain other amounts that appear in this annual report may similarly not sum due to rounding.

Inflation figures are those reported by the Chilean National Statistics Institute, unless otherwise stated herein or required by the context.

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 data, financial indicators and other data relating to the Chilean financial system are based on information published periodically by the Superintendency of Banks, which is published under Chilean GAAP and prepared on a consolidated basis.

Table of Contents

PART I

Item 1 Identity of Directors, Senior Management and Advisors
Not Applicable.

Item 2 Offer Statistics and Expected Timetable
Not Applicable.

Item 3 Key Information

SELECTED FINANCIAL DATA

The following tables present historical financial information about us as of the dates and for each of the periods indicated. The following tables should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report. The financial information for the years ended December 31, 2009, 2010, 2011 and 2012 is presented under IFRS.

Our audited consolidated financial statements have been prepared in accordance with IFRS for the years ended December 31, 2009, 2010, 2011 and 2012.

	For the Year Ended December 31,				
	2009	2010	2011	2012	2012
	(in millions of Ch$, except share and per share data)				(in thousands of U.S.$)[1]
IFRS:					
CONSOLIDATED STATEMENT OF INCOME DATA					
Interest revenue	Ch$ 900,407	Ch$ 1,092,003	Ch$ 1,501,684	Ch$ 1,672,766	U.S.$ 3,488,781
Interest expense	(222,883)	(324,377)	(624,209)	(708,629)	(1,477,942)
Net interest income	677,524	767,626	877,475	964,137	2,010,839
Net fees and commissions income	251,855	292,262	308,773	307,257	640,826
Net financial operating income	(138,179)	17,163	58,101	16,199	33,785
Foreign exchange transactions, net	220,999	63,762	(7,973)	35,136	73,281
Other operating income	22,190	23,584	24,735	20,887	43,563
Provisions for loan losses	(241,345)	(157,651)	(146,925)	(166,420)	(347,091)
Total operating expenses	(491,749)	(544,227)	(613,611)	(635,119)	(1,324,627)
Income attributable to associates	840	1,609	3,054	(468)	(976)
Income before income taxes	302,135	464,128	503,629	541,609	1,129,600
Income taxes	(40,389)	(46,513)	(65,442)	(63,488)	(132,414)
Net income from continued operations, net of taxes	261,746	417,615	438,187	478,121	997,186
Net income from discontinued operations, net of taxes					
Net income for the year	Ch$ 261,746	Ch$ 417,615	Ch$ 438,187	Ch$ 478,121	Ch$ 997,186

Attributable to:					
Equity holders of the parent	261,744	417,614	438,186	478,120	997,184
Non-controlling interest	2	1	1	1	2
Earnings per share[(2)]	3.11	4.93	5.04	5.42	0.011
Earnings per ADS	1,863.26	2,959.96	3,025.81	3,254.37	6.79
Dividends per share[(3)]	2.72	3.50	3.38	3.41	0.007
Weighted average number of shares (in millions)	84,286.34	84,652.76	86,889.65	88,149.82	

(See footnotes below)

Table of Contents

	2009	2010	As of December 31, 2011	2012	2012 (in thousands of U.S.$)[1]
	(in millions of Ch$, except share and per share data)				
IFRS:					
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA					
Cash and due from banks	Ch$ 727,553	Ch$ 772,329	Ch$ 881,146	Ch$ 684,925	U.S.$ 1,428,504
Transactions in the course of collection	526,051	429,756	373,639	310,077	646,708
Financial assets held-for-trading	351,590	279,765	269,861	159,682	333,039
Cash collateral on securities borrowed and reverse repurchase agreements	79,401	82,787	47,981	35,100	73,206
Derivative instruments	565,986	488,354	381,055	326,083	680,091
Loans and advances to banks	448,981	349,588	648,425	1,343,322	2,801,681
Loans to customers, net	12,879,155	14,029,968	17,023,756	18,383,958	38,342,249
Financial assets available-for-sale	1,267,774	1,157,105	1,471,120	1,272,316	2,653,588
Investments in other companies	10,494	11,072	13,196	11,674	24,348
Intangible assets	88,182	88,463	81,026	75,610	157,695
Property and equipment	205,847	204,352	207,888	205,189	427,950
Investment properties	17,840	17,459	17,079	16,698	34,826
Current tax assets		3,363			
Deferred tax assets, net	49,733	57,678	60,025	55,801	116,381
Other assets	282,872	304,425	279,804	317,765	662,742
Total assets	**Ch$ 17,501,459**	**Ch$ 18,276,464**	**Ch$ 21,756,001**	**Ch$ 23,198,200**	**U.S.$ 48,383,008**
Current accounts and other demand deposits	3,718,076	4,446,181	4,895,426	5,470,971	11,410,455
Transactions in the course of payment	325,056	208,750	155,424	72,684	151,592
Cash collateral on securities lent and repurchase agreements	308,028	81,755	223,202	226,396	472,180
Saving accounts and time deposits	7,427,481	7,697,968	9,282,324	9,612,950	20,049,117
Derivative instruments	538,240	528,445	429,913	380,322	793,213
Borrowings from financial institutions	1,368,226	1,281,372	1,690,939	1,108,681	2,312,305
Debt issued	1,587,998	1,764,165	2,388,341	3,273,933	6,828,233
Other financial obligations	176,150	179,160	184,785	162,123	338,130
Currents tax liabilities	39,018		3,095	23,189	48,364
Deferred tax liabilities, net					
Provisions	88,607	114,685	131,344	141,839	295,825
Employee benefits	43,202	55,433	60,634	64,545	134,617
Other liabilities	280,392	224,225	269,905	305,105	636,340
Total liabilities	**Ch$ 15,900,474**	**Ch$ 16,582,139**	**Ch$ 19,715,332**	**Ch$ 20,842,738**	**U.S.$ 43,470,371**
Total equity	**1,600,985**	**1,694,325**	**2,040,669**	**2,355,462**	**4,912,637**
Total liabilities and equity	**Ch$ 17,501,459**	**Ch$ 18,276,464**	**Ch$ 21,756,001**	**Ch$ 23,198,200**	**U.S.$ 48,383,008**

(See footnotes below)

Table of Contents

	As of December 31,			
	2009	2010	2011	2012
IFRS:				
CONSOLIDATED RATIOS				
Profitability and Performance				
Net interest margin(4)	4.48%	4.70%	4.80%	4.68%
Return on average total assets(5)	1.51	2.38	2.16	2.13
Return on average equity(6)	24.45	16.85	22.61	21.63
Capital				
Average equity as a percentage of average total assets	8.99	9.50	9.53	9.85
Bank regulatory capital as a percentage of minimum regulatory capital	234.93	232.85	245.52	269.75
Ratio of liabilities to regulatory capital(7)	11.87	12.99	12.30	11.10
Credit Quality				
Substandard loans as a percentage of total loans(8)	5.81	5.46	2.87	3.31
Allowances for loan losses as a percentage of substandard loans(8)	40.71	44.33	72.58	62.42
Provision for loan losses as a percentage of average loans	1.89	1.16	0.92	0.92
Allowances for loan losses as a percentage of total loans	2.37	2.42	2.09	2.07
Operating Ratios				
Operating expenses/operating revenue	47.54	46.74	48.66	47.27
Operating expenses/average total assets	2.85%	3.10%	3.02%	2.83%

(1) Translations of Chilean peso amounts into U.S. dollars are based on the exchange rate of accounting representation or the spot exchange rate, which is determined on a daily basis by our Treasury, based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange. Thus, amounts stated in U.S. dollars as of and for the fiscal year ended December 31, 2012 have been translated from Chilean pesos based on an exchange rate of accounting representation or spot exchange rate of Ch$479.47 to U.S.$1.00, as of December 30, 2012.

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

(3) Dividends per share data are calculated by dividing the amount of the dividend paid during each year by the previous year s number of shares outstanding.

(4) Annualized net interest income divided by average interest earning assets. The average balances for interest earning assets, including interest and readjustments, have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries.

(5) Annualized net income (loss) divided by average total assets. The average balances for total assets have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries.

(6) Annualized net income (loss) divided by average equity. The average balances for equity have been calculated on the basis of our daily balances.

(7) Total liabilities divided by bank regulatory capital.

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

Exchange Rates

As a general matter, prior to 1989, Chilean law permitted the purchase and sale of foreign currency only in those cases explicitly authorized by the Central Bank. The *Ley Orgánica Constitucional del Banco Central de Chile* 18,840 (the Central Bank Act) liberalized the rules governing 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* (the Formal Exchange Market). The Formal Exchange Market is composed of 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 not required to be conducted in the Formal Exchange Market may be carried out in the *Mercado Cambiario Informal* (the Informal Exchange Market). There are no price limits imposed on transactions executed in the Informal Exchange Market. On December 28, 2012 (the last trading date of the year), the average exchange rate in the Informal Exchange Market was Ch$479.9 per U.S.$1.00, or 0.3% higher than the observed exchange rate of Ch$478.6 per U.S.$1.00 reported by the Central Bank on the same date. 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.

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 2008, as reported by the Central Bank:

	Daily Observed Exchange Rate Ch$ per U.S.$(1)			
	Low(2)	High(2)	Average(3)	Period End(4)
Year			(in Ch$)	
2008	431.22	676.75	522.46	629.11
2009	491.09	643.87	559.61	506.43
2010	468.37	549.17	510.25	468.37
2011	455.91	533.74	483.67	521.46
2012	469.65	519.69	486.49	478.60
October 2012	471.54	481.98	475.36	480.03
November 2012	476.20	484.48	480.57	479.42
December 2012	474.36	481.28	477.13	478.60
2013 (through April 15)	466.50	479.96	471.87	469.24
January 2013	470.67	479.96	472.67	471.40
February 2013	470.67	473.60	472.34	473.30
March 2013	471.10	474.82	472.48	472.54
April 2013 (through April 15)	466.50	472.55	470.00	469.24

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) For full years, the average of monthly average rates during the year. For full months, the daily average during the month.
(4) As reported by the Central Bank on the first business day of the following period.

The observed exchange rate on April 15, 2013 was Ch$469.24 = U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Until November 30, 2011, Banco de Chile applied the observed exchange rate as reported by the Central Bank in order to translate its financial statements from Chilean pesos to U.S. dollars. However, beginning December 1, 2011, Banco de Chile adopted the exchange rate of accounting representation, or spot exchange rate, for such matters. The exchange rate of accounting representation is determined on a daily basis by our

Treasury based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange.

Table of Contents

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 also subject to market risks that are presented both in this subsection and in Note 41 to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report.

Risks Relating to our Operations and the Chilean Banking Industry

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

During the last five years, our total loan portfolio has shown double-digit growth rates, primarily as a result of the expansion in residential mortgage and consumer loans, and, to a lesser extent, due to an increase in commercial loans. The growth of our loan portfolio is in line with our strategic priorities, although we recognize our focus on the retail market may expose us to higher levels of loan losses and may require us to establish higher levels of allowances for loan losses. For the year ended December 31, 2012, our loan portfolio amounted to Ch$18,771,761 million, which represents a 8.0% annual increase as compared to the amount of Ch$17,386,497 million that we recorded as of December 31, 2011. Similarly, our allowances for loans losses increased 6.9% from Ch$362,741 million in 2011 to Ch$387,803 million in 2012. Accordingly, our ratio of allowances for loan losses to total loans was 2.09% in 2011 and 2.07% in 2012.

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

We cannot assure you that our loan portfolio will continue to grow at the same rates as it has in the past. The Chilean financial system s loan portfolio has grown significantly over the last five years, which growth has been fostered by a general effort of participants in the financial industry to broaden their value offerings and increase banking penetration in lower and middle income segments. These efforts have been also supported by the robustness of the Chilean economy over the last decade. However, a slowdown or negative growth rate of the Chilean economy, as well as a change in the behavior of banking customers, could adversely affect the growth rate of our loan portfolio and our credit quality indicators and, accordingly, cause us to increase our required allowances for loan losses. For more information, see Item 4. Information on the Company Regulation and Supervision and Item 4. Information on the Company Selected Statistical Information.

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 Superintendency of Banks. In addition, we are subject to regulation by the Central Bank with respect to certain matters, including interest rates and foreign exchange transactions. See Item 4. Information on the Company Regulation and Supervision.

Pursuant to the *Ley General de Bancos* (the General Banking Law) all Chilean banks may, subject to the approval of the Superintendency of Banks, engage in certain non-banking businesses approved by the law. The Superintendency of Banks approval will depend on the risk of the activity and the strength of the bank. Further, the General Banking Law 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 (the Basel Committee) and limits the discretion of the Superintendency of Banks to deny new banking licenses.

In addition, during 2011 the Chilean Congress debated bills regulating insurance commissions related to mortgage loans and maximum legal interest rates for small consumer loans. The bill regulating insurance commissions was published on December 17, 2011, effective as of July 1, 2012. This new law imposed restrictions and obligations on lenders such as a mandatory bid process for insurance related to mortgage loans and a general prohibition on commissions benefiting the lender. Although this law became effective on July 1, 2012, it did not have any impact on our business activity due to the characteristics of the insurance contracts associated with residential mortgage loans, which consist of collective insurance policies that are renewed every January 1st. The new law will apply to our results of operations beginning in 2013, although we do not expect any material effects.

Additionally, there is a bill currently under consideration in Congress related to maximum legal interest rates. This bill states that applicable maximum interest rates may not exceed the higher of: (i) 1.5 times the average interest rate for loans applicable at the time of the agreement, and (ii) the average interest rate for loans applicable at the time of the agreement plus two annual percentage points. In addition, the bill states that the interest rate for local currency loans not indexed to inflation with terms longer than 90 days may not exceed the average interest rate applicable to the same type of loans for amounts between 200 and 5.000 UF (approximately U.S.$9,527 and U.S.$238,187) plus: (i) 14 annual percentage points if the loan is higher than 50 UF (approximately U.S.$2,382) or (ii) 21 annual percentage points if the loan is equal or lower than 50 UF. Accordingly, the proposed law if enacted will mainly affect consumer loans, namely, installment, credit card and credit line loans, as well as overdue loans. We estimate that under the terms considered in this bill, as of December 31, 2012, no more than 2.5% of our total loans had an interest rate above the proposed new limit or had an overdue portion subject to penalty charges and, therefore, were potentially affected by the new maximum interest rate. We believe that if the bill is enacted, it would affect the volume of installment loans to be granted from the date the law goes into effect, as well as the outstanding and new loans related to credit cards and credit lines, whereas the outstanding balance of installment loans would not be affected. In addition, the proposed law if enacted may result in lower net interest income together with a reduction in our loan growth. Since the bill is currently under discussion in Congress we cannot ascertain the final outcome of the law or its actual impact on interest rates. Nevertheless, based on preliminary estimations, we believe the proposed law if enacted would not have any material effects on our results of operations for 2013.

It is also important to note that the Chilean regulator has suggested that Basel III guidelines may be implemented in Chile which could impose new requirements for Chilean banks in terms of capital adequacy and liquidity standards. We do not expect the potential implementation of Basel III to affect our profitability and results of operations in 2013 as the Chilean regulator has not given any indication as to when and how these guidelines will be implemented. Nevertheless, we cannot assure that these guidelines will not affect our financial performance in the future if adopted.

There can be no assurance that regulators will not impose more restrictive limitations in the future on the activities of banks, including us, than those that are currently in effect or proposed. Any such change could have a material adverse effect on us.

Increased competition and industry consolidation may adversely affect our operations.

The Chilean market for financial services is highly competitive. We compete with other Chilean and foreign banks, with Banco del Estado de Chile, a government-owned bank, and with large department stores that grant consumer loans to a large portion of the Chilean population, especially in the low and middle-income segments. In addition, the retail market (which comprises individuals and small and medium-sized companies) has become the target market of several banks, and competition within this market is increasing as banks are continuously incorporating new and tailored products, while they strive to improve service quality. As a result, net interest margins (after provisions for loan losses) in these sub-segments are likely to decline over time.

We also face competition from non-bank competitors with respect to some of our credit products, such as credit cards and consumer loans. In these markets, competition from non-banking companies like large department stores, private compensation funds, and saving and credit cooperatives has become increasingly significant. In addition, we face competition from other types of competitors, such as leasing, factoring and automobile financing companies (especially in credit products), as well as mutual funds, pension funds and insurance companies, within the market for savings products and mortgage loans. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business is experiencing fast growth, but we cannot assure you that this trend will continue in the future. See Item 4. Information on the Company Business Overview Competition.

Increasing competition within the Chilean banking industry has been accompanied by a consolidation trend in the industry in recent years. We expect that both of these trends will continue and result in the creation of larger and stronger financial groups. These trends may adversely affect us because they may increase the interest rates we pay to attract depositors and decrease the interest rates we charge our customers for loans, resulting in a decrease of the net interest margins we are able to generate.

Table of Contents

Our exposure to certain segments of the retail market could lead to higher levels of total past-due loans and subsequent charge-offs.

Although we historically focused on banking for the wholesale market and high-income individuals, an increasing portion of our retail market consists of small and medium-sized companies (approximately 7.6% of our total loan book as of December 31, 2012, including companies with annual sales of up to Ch$1,600 million) and, to a lesser extent, of lower-income individuals (approximately 4.1% of our total loan book as of December 31, 2012, including individuals with monthly incomes that range from Ch$170,000 to Ch$500,000). Our strategy aims to increase lending and banking penetration by providing multiple value propositions to attract additional retail 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 total past-due loans, which could result in higher allowances for loan losses.

The levels of total past-due loans and subsequent write-offs may be materially higher in the future, which could adversely affect us. As of December 31, 2012 our total past-due loans (loans overdue 90 days or more) reached Ch$181,863 million which represented a 1.7% annual increase as compared to the figure recorded a year earlier. In addition, as of December 31, 2012 our total past-due loans were composed of 77.3% of retail banking past-due loans (consumer and residential mortgage loans to individuals, as well as commercial loans to small and medium sized companies) and 22.7% of wholesale banking past-due loans (commercial loans to large companies and corporations). During the prior fiscal year, our past-due portfolio comprised 81.9% of retail banking past-due loans and 18.1% wholesale banking past-due credits.

For more information, see Item 4. Information on the Company Business Overview Principal Business Activities.

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

As of December 31, 2012, *Sociedad Administradora de la Obligación Subordinada S.A.* (SAOS), our affiliate, held 32.5% of our shares as a consequence of our 1996 reorganization. This reorganization was due in part to the 1989 repurchase by 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. For more information, 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 debt, SAOS received from SM-Chile S.A. (SM-Chile), the holding company that controls us and SAOS, a stake of 63.6% of our shares as collateral for this debt. Dividends received from us are the sole source of SAOS s revenues, which in turn must be used to repay this debt. 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 debt, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If this cumulative deficit balance exceeds 20% of our paid-in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of our shares to pay the entire amount of the accumulated deficit. As of March 31, 2013, SAOS maintained a surplus with the Central Bank of Ch$275,702 million, equivalent to a 13.4% of our paid-in capital and reserves as of the same date.

Furthermore, if 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, the Central Bank may require us to pay in cash to SAOS the portion of net income corresponding to its stake in our shares. 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. SM-Chile shareholders will have a right of first refusal with respect to that sale.

If SAOS is required to sell shares of our stock for any of the aforementioned circumstances in the public market, that sale could adversely affect the prevailing market price of our stock.

Table of Contents

The results of our operations are affected by inflation and interest rate volatility.

The results of our operations depend to a great extent on our net interest income, which represented 71.8% of our total operating revenues in 2012. Changes in inflation and nominal interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, resulting in a reduction in our net income. Inflation and interest rates are highly sensitive to several factors beyond our control, including the Central Bank s monetary policy, deregulation of the Chilean financial sector, domestic and international economic and political conditions, among other factors. Any volatility in interest rates could have a material adverse effect on our financial condition and results of operations. The inflation rate measured as the annual variation in the Consumer Price Index (CPI) as published by the National Statistics Institute was 2.96% in 2010, 4.44% in 2011 and 1.49% in 2012. The average annual short-term nominal interest rate in Chile for 90 to 360 day deposits received by Chilean financial institutions was 2.73% in 2010, 5.61% in 2011 and 5.90% in 2012. The average long-term nominal interest rate based on the interest rate of the Central Bank s five-year bonds was 5.54% in 2010, 5.67% in 2011 and 5.26% in 2012. For more information, see Item 5. Operating and Financial Review and Prospects Operating Results Overview Inflation and Item 5. Operating and Financial Review and Prospects Operating Results Overview Interest Rates.

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

As all large financial institutions, we 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, errors made by employees and natural disasters, such as earthquakes or tsunamis. Although we maintain a system of operational controls composed of world-class human and technological resources, as well as comprehensive contingency plans, 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 us.

Cybersecurity events could negatively affect our reputation or results of operations and may result in litigation.

We have access to large amounts of confidential financial information and control substantial financial assets belonging to our customers as well as to us. In addition, we provide our customers with continuous remote access to their accounts and the possibility of transferring substantial financial assets by electronic means. Accordingly, cybersecurity is a material risk for us.

We depend on a variety of internet-based data processing, communication, and information exchange platforms and networks. Thus, we cannot assure you that all of our systems are entirely free from vulnerability. Additionally, we enter into contracts with several third-parties to provide the business, data and communication services we offer to our customers. If information security is breached, or if one of our employees breaches compliance procedures, information could be lost or misappropriated, which may affect our results of operations, damage others or result in potential litigation. Cybersecurity incidents, such as computer break-ins, phishing, identity theft and other disruptions could negatively affect the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us in excess of insurance coverage, and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, we cannot assure you that these security measures will be successful.

Request from Spanish Court to Chilean Judicial Authorities

On April 29, 2010, the Supreme Court of Chile denied the requests contained in a rogatory letter issued on October 26, 2009 by the Central Court of Instruction Number 5 of the National Court of Spain (*Juzgado Central de Instrucción No. 5 de la Audiencia Nacional de Madrid*) in Madrid, Spain (the Spanish Court) to have certain actions taken (as described below) with respect to a lawsuit before the Spanish Court. The Supreme Court of Chile established that the subject matter of the investigation by the Spanish Court was currently pending before a Chilean tribunal that has jurisdiction and competence over these matters.

Table of Contents

The rogatory letter referred to above notified the Chilean judicial authorities that a lawsuit pending before the Spanish Court had been amended to add causes of action concerning concealment of assets and money laundering against Mr. Pablo Granifo Lavin (the chairman of our board of directors) and Mr. Hernán Donoso Lira (former manager of our New York branch) and against us, Banchile Corredores de Bolsa S.A. and Banchile Administradora General de Fondos S.A., the latter three of which face only subsidiary civil liability. The rogatory letter, among other items, requested a joint guarantee (*fianza solidaria*) from the defendants in the amount of U.S.$77,348,374 and, if the aforementioned parties were not to grant such a joint guarantee, requested the attachment of assets of up to U.S.$103,131,165.

On April 30, 2012, the Spanish Court decided the provisional dismissal (*sobreseimiento provisional)* of the aforementioned lawsuit on the grounds that the Chilean judicial authorities have investigated and prosecuted the same facts as those pending before the courts in Spain, and there is an existing legal proceeding underway in Chile, which should have priority. The complainant filed an appeal (*recursos de apelación y reforma*), which was dismissed on July 27, 2012 and June 19, 2012 by the Spanish judicial authorities.

In Chile, a judicial investigation is currently underway and at the time of filing of this annual report no indictments for criminal participation of persons affiliated with us have been issued. Consequently, it is not possible to predict the outcome of these proceedings, or what impact, if any, they might have on us.

Exposure to European sovereign debt or related instruments and future turmoil and destabilization related thereto could negatively affect our business.

Although emerging markets were less impacted by the global financial crisis of 2008 and showed a quick recovery, there are still concerns about the possibility of a recession in developed countries, especially due to the fiscal condition of certain European economies (such as Greece, Italy, Ireland, Portugal and Spain, also called PIIGS economies). The debt levels and fiscal unreliability of these countries have resulted in uncertainty regarding the outlook for the global economy and a potential contagion to other economies linked to these countries.

Similarly, we are unable to determine and predict the effects this situation will have on the world s and our commercial partners GDP growth and overall financial stability. Also, these factors could translate into a local economy s slowdown that would affect the decision making process of individuals and companies regarding consumption and investment, which in turn could adversely affect the demand for credits. Accordingly, we cannot assure you that these developments will not occur or that they will not affect us.

As of December 31, 2012 we had a total exposure to PIIGS economies of Ch$38,785 million (U.S.$80.9 million), which represents 0.17% of our total assets as of the same date. This exposure was concentrated in only two economies, Italy and Spain, and it was related to contingent credits, such as standby letter of credits in favor of us as well as third parties. As of the same date, we had no additional exposure to PIIGS countries, in any type of instrument, such as financial assets available-for-sale, assets held for trading, derivatives, commercial loans, credit lines, confirming export letters of credits, etc.

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 April 15, 2013, LQ Inversiones Financieras S.A. (LQIF), a holding company beneficially owned by Quiñenco S.A. and Citigroup Chile S.A. holds directly and indirectly approximately 58.40% of the voting rights of our shares. These principal shareholders are in a position to elect a majority of the members of our board of directors, direct our management and control all matters decided by a shareholder vote, including the approval of fundamental corporate transactions.

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.

Table of Contents

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

While our ADSs have been listed on the New York Stock Exchange (the NYSE) since the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will be sustained. During 2012, a daily average of 22,924 American Depositary Receipts (ADRs) was traded on the NYSE, according to data provided by Bloomberg. 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. As of December 31, 2012, approximately 15.7% of our outstanding shares were held by shareholders other than our principal shareholders, including LQIF, SM-Chile, SAOS and Ergas Group.

If an ADS holder withdraws the underlying shares from the ADR facility, the small size of the market, its limited liquidity, as well as our concentrated ownership, 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 Anónimas No. 18,046* (the Chilean Corporations Law) and the *Reglamento de Sociedades Anónimas* (the Chilean Corporations 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 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 international financial markets may adversely affect the market price of the ADSs and shares.

The market price of our ADSs and shares may be adversely affected by volatility in international financial markets and adverse world economic conditions. The market for Chilean securities and the Chilean economy as a whole are, to varying degrees, influenced by economic and market conditions in the United States and certain emerging market countries, including some in Latin America and Asia. Although economic conditions are different in each country, investors reactions to developments in one country can affect the financial markets in other countries, including Chile. Therefore, unfavorable developments in other countries may adversely affect the market price of our ADSs and shares.

In particular, since August 2007, there has been significant volatility in worldwide financial markets due to consequences from the announcement, by several U.S. banks and financial institutions, of significant write-downs related to their exposure to mortgage-backed securities and other financial instruments. This situation, also known as the subprime crisis, translated into significant government bail-outs for important banks worldwide, bankruptcy for some others and an active M&A market in the financial industry. Although the Chilean economy is not directly exposed to the U.S. housing credit market and we do not directly hold any assets related to such financial instruments, the subprime crisis impacted Chilean economic activity towards the end of 2008, with additional effects on the banking industry and our commercial activity. We cannot assure you that these past developments will not continue to affect us, nor that any future developments in international markets could not affect us, including our results of operations and consequently the market price of our ADSs and shares.

Similarly, although our exposure to European sovereign debt is not significant, amounting to U.S.$80.9 million as of December 31, 2012, we cannot assure you that volatility in global financial markets due to the uncertainty regarding the Eurozone fiscal condition will not affect the Chilean economy and consequently our financial condition and results of operations. Accordingly, the price of our ADS could be adversely affected by a new financial turmoil in the Eurozone, a slower than expected recovery, or a deterioration in healthier economies, such as Germany and France, that could translate into increasing volatility and uncertainty all over the world.

In the past, Chile has imposed controls on foreign investment and repatriation of investments that affected investments 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, 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 for our ADSs 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 35% from any dividends we pay to you.

ADSs owners are entitled to receive dividends on the underlying shares to the same extent as the holders of shares. Dividends received by ADSs owners will be paid net of foreign currency exchange fees and expenses of the depositary and will be subject to Chilean withholding tax of 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. For more information, see Item 10. Additional Information Taxation Chilean Tax Considerations.

Risks Relating to Chile

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

Our core business and transactions are with customers doing business in Chile. Accordingly, our ability to increase our business scale and results of operations, as well as enhance our financial condition, in general, depends on the dynamism of the Chilean economy and specific macroeconomic variables, such as inflation, unemployment, consumption and investment. The global financial crisis that significantly affected the growth in developed economies also affected the Chilean economy by the end of 2008 and during the first three quarters of 2009, which immediately translated into a slowdown in the local banking industry due to lower levels of consumption and deteriorated credit quality in loan portfolios prompted by increasing unemployment. Conversely, during 2010 and 2011 the local economy and financial system experienced a significant upturn, fostered by real GDP growth of around 6% per year, mainly as a result of the recovery in consumption and investment. To a great extent, this trend continued in 2012 by supporting a GDP expansion of 5.6% for the local economy. Accordingly, over the last three years the Chilean banking industry, including us, returned to historical average figures of loan growth and profitability. Nevertheless, we cannot assure you that the Chilean economy will continue to grow in the future or developments in, or affecting, the Chilean economy and the local banking industry will not materially and adversely affect us, our business, financial condition or results of operations.

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 with respect to the U.S. dollar could affect the dollar value of our common stock and our ADSs. The peso has been subject to large fluctuations in the past and could continue this trend in the future. Between December 31, 2011 and December 31, 2012, the value of the U.S. dollar relative to the Chilean peso decreased by approximately 8.2%, as compared to the increase of 11.3% recorded in the period from December 31, 2010 to December 31, 2011.

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 U.S. dollar increases relative to the Chilean peso, the dollar value of our ADSs and any distributions to be received from the depositary will decrease. 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. For more information, see Item 10. Additional Information Exchange Controls.

Table of Contents

Our results of operations may be affected by fluctuations in the exchange rates between the Chilean peso and the U.S. dollar despite our policy and Chilean regulations related to the general avoidance of material exchange rate mismatches. In order to reduce the effect of exchange rate mismatches we enter into foreign exchange derivative transactions in order to hedge partially or totally our exposure. As of December 31, 2012, our foreign currency-denominated assets and Chilean peso-denominated assets, which contain repayment terms linked to changes in foreign currency exchange rates, exceeded our foreign currency-denominated liabilities and Chilean peso-denominated liabilities, which contain repayment terms linked to changes in foreign currency exchange rates, by an amount of Ch$1,097.2 million, or 0.06% of our paid-in capital and reserves.

We may decide to change our policy regarding exchange rate mismatches. Regulations that limit such mismatches may also be amended or eliminated. Higher exchange rate mismatches will increase our exposure to the devaluation of the Chilean peso, and any such devaluation may impair our capacity to service foreign-currency obligations and may, therefore, materially and adversely affect us, our financial condition and results of operations. Additionally, the economic policies of the Chilean Government and any future fluctuations of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations.

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

Inflation has been moderate in recent years, especially in comparison to the periods of high inflation in the 1980s and 1990s. High levels of inflation in Chile could adversely affect the Chilean economy and, indirectly, our results of operations and the value of our ADSs. The annual rate of inflation (as measured by changes in the CPI and as reported by the Chilean National Institute of Statistics) during the last five years and the first three months of 2013 was:

Year	Inflation (CPI Variation)
2008	7.1%
2009	(1.4)
2010	3.0
2011	4.4
2012	1.5
2013 (through March 31)	0.7%

Source: Chilean National Institute of Statistics

Although we benefit from a positive inflation rate in Chile due to the structure of our assets and liabilities (we have a significant net asset position 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 current levels. For more information, see Item 5. Operating and Financial review and Prospects Inflation.

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

Chilean disclosure requirements for publicly listed companies differ from those in the United States in some significant aspects. 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. Accordingly, the information about us available to you will not be the same as the information available to shareholders of a U.S. company. For more information, see Item 16G. Corporate Governance.

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

Our corporate affairs are governed by our *estatutos* (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.

15

Table of Contents

Item 4 Information on the Company

History and Development of the BANK

Overview

We were founded in 1893, and we have been, for much of our history, among the largest and most profitable Chilean banks in terms of return on assets and equity in Chile. Our core business is commercial banking in Chile, providing traditional banking products and specialized financial services to our diversified customer base of individuals and companies.

Our legal name is Banco de Chile and we are organized as a banking corporation under the laws of Chile and were licensed by the Superintendency of Banks to operate as a commercial bank on September 17, 1996. Our main executive offices are located at Paseo Ahumada 251, Santiago, Chile, our telephone number is +56 (2) 2637-1111 and our website is www.bancochile.cl. Our representative in the United States is Puglisi & Associates, with offices at 850 Library Avenue, Suite 204, Newark, Delaware 19711.

We are a full-service financial institution that provides, directly and indirectly through our subsidiaries and affiliates, a wide variety of lending and non-lending products and services to all segments of the Chilean financial market, providing powerful and differentiated value offerings to our customers. Our business is not materially affected by seasonality.

We organize our operations and deliver our services to our customers through the following four principal business segments:

(i) retail banking;

(ii) wholesale banking;

(iii) treasury and money markets; and

(iv) subsidiaries.

We provide our retail customers with credit cards, residential mortgage loans and consumer loans, as well as traditional deposit services, such as current accounts, demand deposits, savings accounts and time deposits. Our retail customers are composed of micro, small and medium sized companies that we serve by providing them with short and long term loans, as well as diverse deposit solution, in order to satisfy their needs. Our banking services for wholesale customers include commercial loans (which include factoring and leasing), foreign trade, capital markets services, cash management and non-lending services, such as payroll and payment services, as well as a wide range of treasury, financial advisory and risk management products.

In 2008, we supplemented our products and services and enhanced our value offerings by entering into a strategic partnership with Citigroup Inc., as a result of our merger with Citibank Chile.

As of December 31, 2012, we also offered international banking services through our Trade Services subsidiary in Hong Kong, our representative offices in São Paulo and Beijing, and a worldwide network of correspondent banks.

In addition to our traditional banking operations, our subsidiaries and affiliates permit us to offer a variety of non-banking but specialized financial services including securities brokerage, mutual funds management, investment banking, factoring, insurance brokerage, securitization, collection and credit pre-evaluation services.

According to the Superintendency of Banks, as of December 31, 2012 and excluding the operations of subsidiaries abroad, we were the largest bank in terms of net income with a market share of 29.0%, the second largest bank in Chile in terms of total loans with a market share of 19.0%, the largest provider of commercial loans with a market share of 19.0%, the largest bank in terms of current account balances held by individuals with a market share of 31.0%, the second largest provider of consumer loans with a market share of 22.0% and the second largest privately owned bank in terms of residential mortgage loans with a market share of 17.2%. Also, according to the Chilean Association of Mutual Funds, as of December 31, 2012 we were the largest provider of mutual funds management with a market share of 23.2%.

As of December 31, 2012 we had:

- total assets of Ch$23,198,200 million (approximately U.S.$48,383 million);
- total loans of Ch$18,771,761 million (approximately U.S.$39,151 million), before deducting allowances for loan losses;
- total deposits of Ch$15,083,921 million (approximately U.S.$31,460 million), of which Ch$5,470,971 million (approximately U.S.$11,410 million) correspond to current account and demand deposits;
- equity (including net income, non-controlling interest and provisions for minimum dividends) of Ch$2,355,462 million (approximately U.S.$4,913 million);
- net income of Ch$478,121 million (approximately U.S.$997 million); and
- market capitalization of Ch$6,944,962 million (approximately U.S.$14,485 million).

As of December 31, 2012, we had 14,581 employees and delivered financial products and services through a nationwide distribution network of 434 branches, and 1,915 ATMs that are part of a larger ATM network operated by Redbanc S.A. (a company owned by us and 11 other privately owned banks) that comprises 6,765 ATMs.

History

We were founded in 1893 as a result of the merger of Banco Nacional de Chile, Banco Agrícola and Banco de Valparaíso, which created the largest privately held bank in Chile. We have played an important role in the economic history of Chile. Before the creation of the Central Bank in 1926 and prior to the enactment of the General Banking Law, we were the main stabilization agent of the Chilean banking system, a role that is now performed by the Chilean Central Bank. Beginning in the early 1970s, the Chilean Government assumed control of a majority of Chilean banks, and all but one of the foreign banks that were operating at that time closed their branches and offices within the country. Throughout this era, we remained as a privately-owned bank, with the exception of a portion of our shares owned by the Chilean Government that were sold to private investors in 1975. Throughout our history we have developed a well-recognized brand 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 operations in Europe were moved to Frankfurt. The office in Frankfurt 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 a full range of specialized financial products and services as permitted by the General Banking Law. In 1999, we widened our scope of specialized financial services by creating our insurance brokerage and factoring subsidiaries. According to our estimates, we remained the largest private bank in Chile until 1996. During the early 2000s, the Chilean banking industry witnessed intense merger and acquisition activity. In 2002, we merged with Banco de A. Edwards, which allowed us to expand our business to new customer segments. In 2008, we sold our U.S. branches to Citigroup in connection with our merger with Citibank Chile that was carried out during the same year. As a result of these consolidations, we currently operate a distribution network that is composed of three brand names, namely, Banco de Chile (which operates throughout Chile), Banco Edwards-Citi (which is primarily oriented to higher income segments) and Banco CrediChile (which is focused on consumer loans and sight accounts for lower and middle income segments). In 2012 we became the market leader in net income and the most profitable bank (the highest return on average equity and average capital and reserves) within the Chilean banking industry, according to information released by the Superintendency of Banks. Similarly, among our peers we were the bank with the best credit quality indicators in terms of past-due loans, provisions for loan losses over average loans and past-due loans coverage. In terms of business, during 2012 we endorsed our leadership in mutual funds management and current accounts for individuals, while our investment banking subsidiary maintained the market leading position in corporate bond placements within the local market, according to information available at the Chilean Association of

17

Mutual Funds, the Superintendency of Banks and the Superintendency of Securities and Insurance, respectively. In terms of funding diversification, in 2012 we accessed new foreign debt markets by placing senior bonds in Hong Kong and Peru for a total aggregate amount of approximately U.S.$193 million. Similarly, we established a commercial paper program in the U.S. market of U.S.$1,000 million.

In addition, during 2012 we undertook a capital increase of approximately Ch$250 billion (approximately U.S.$521 million) backed by the issuance of approximately 3.9 million new series of shares, labeled Banco de Chile-T series. This series has the same rights as any Banco de Chile shares, with the exception that it will not allow its holders to receive dividends and fully paid-in shares, with charge to our net distributable earnings, for the fiscal year 2012. Nevertheless, once those dividends and fully paid-in shares are distributed and paid, all of the Banco de Chile-T shares will automatically convert into Banco de Chile shares. We have successfully completed this equity offering by placing the total amount of shares that were initially offered.

Merger with Banco de A. Edwards

On December 6, 2001, our shareholders approved our 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. Since 2002, our shares have also been traded on the Latin American Stock Exchange of the Madrid Stock Exchange (Latibex), and the London Stock Exchange (LSE). We concluded the merger process with the consolidation of a new corporate structure and the integration of our technological platforms.

Merger with Citibank Chile

On December 27, 2007, our shareholders approved our merger with Citibank Chile, which became effective on January 1, 2008. During 2008, we integrated Citibank Chile s technological platforms with ours and established a new organizational structure in order to satisfy the needs of our customers and to achieve important synergies. We concluded the merger process with the integration of Corporación Financiera Atlas S.A. (Citibank Chile s consumer division) into our consumer division (CrediChile), which allowed us to nearly double our customer base and market share in consumer finance.

Our partnership with Citigroup Inc., an internationally well-known brand name, enabled us to broaden the scope of financial services that we offer to our customers through the addition of global financial services and other benefits. As a result of this partnership, we entered into a global connectivity agreement (the Global Connectivity Agreement), which has supported the creation of (i) an international personal banking unit, responsible for optimizing access to financial services outside Chile to our local retail customers, (ii) a global transactional services unit, responsible for executing local and international cash management services, as well as custody and foreign trade assistance, to our wholesale customers, and (iii) an enhanced investment banking unit, responsible for providing financial advisory services and access to global capital markets to our Chilean corporate customers.

Technological Projects

During 2010, our efforts were focused on upgrading internal processes and services, implementing new information technology systems and starting to develop new mid-term strategic IT programs. By December 31, 2010, we had optimized and reduced the response time of different operating processes and achieved important improvements in our internal processes and services, such as: (i) availability of electronic distribution channels; (ii) availability of additional services through the Internet; and (iii) reduction of our operating systems starting time. In addition, during 2010 we also implemented several IT projects, including: (i) a new telephone-based service system for our Large Companies and Real Estate Division intended to reduce the rate of unanswered calls; (ii) a system that integrated current accounts from Citibank Chile into our system; and (iii) a number of online systems that allow a credit risk pre-evaluation and online credit simulation through our website. During 2010 we also prioritized the start-up of our data processing center and the upgrade of our contingency site.

In 2011, our technological projects aimed to support the development of new products and services, improve the efficiency and productivity of our internal systems and processes, reinforce our technological infrastructure and minimize our operational risks. Thus, the main projects developed throughout 2011 were: (i) the implementation of new websites and a phone-based sales platform, in addition to the launch of Banca Móvil

Table of Contents

(mobile solutions for tablets and smartphones) for our retail banking segment; (ii) the development of operational and technological processes required to release the Banco de Chile | Entel credit card; (iii) the release of a new platform for options trading; (iv) a new system of financial evaluation for companies that supports the tasks carried out by our Corporate Risk Management Division; and (v) the setup of a new data center.

Throughout 2012, our IT priorities were focused on improving operating efficiency through diverse projects intended to enhance internal processes in quality and timing, as well as reinforcing security in transactional services. Our main IT projects in 2012 included: (i) the automation of product application forms for small and medium sized companies, (ii) implementation of a new online platform for current accounts, (iii) approval of individuals and SMEs operations through scanned documentation, (iv) time-improving procedures for foreign exchange operations, (v) new systems for managing and trading derivatives, and (vi) the implementation of a new platform for financial planning. For security matters, we implemented world-class security software that is intended to avoid fraud in electronic money transfers. Similarly, we implemented improved ATMs shield procedures.

Therefore, we maintain our commitment of anticipating and minimizing cybersecurity risks, as mentioned in Item 3. Risk Factors Risks Relating to our Operations and the Chilean Banking Industry and Item 3. Risk Factors Cybersecurity events could negatively affect our reputation or results of operations and may result in litigation.

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

During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability that required the Central Bank and the Chilean Government to 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 the Bank. In 1987, the Superintendency of Banks returned complete control and administration of the Bank to our shareholders and our Board of Directors by ending our provisional administration based on our successful capital increases as required by Law 18,401.

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 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 related to our non-performing loans.

The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch$1,427,845 million (in real terms), 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 to repay the Central Bank subordinated debt. In 1994 we applied 67.6%, and in 1995 we applied 65.8% of our income before provisions to repay the Central Bank subordinated debt.

In November 1996, pursuant to Law No. 19,396, our shareholders approved a reorganization by which we were converted into a holding company named SM-Chile. In turn, SM-Chile organized a new wholly-owned banking subsidiary named Banco de Chile, to which the former contributed all of its assets and liabilities, other than the Central Bank subordinated debt, to the latter. In addition, SM-Chile 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 debt, 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 aspects, such as the 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 debt bears interest at a rate of 5.0% per year and is UF-denominated.

Table of Contents

In exchange for assuming the Central Bank debt, SAOS received from SM-Chile 63.6% of our shares as collateral. Although shares held by SAOS as collateral have economic rights that belong to the Chilean Central Bank, their voting rights are exercised by SM-Chile s shareholders. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. Subsequently, as a result of the capital increases agreed upon in the Extraordinary Shareholders Meetings held in May 2007. January 2011 and October 2012, the share dividends paid in May 2006, May 2007, June 2009, March 2011, March 2012 and March 2013, as well as the merger with Citibank Chile in January 2008, the percentage of our shares held by SAOS further decreased to 32.5%. Dividends received from us are the sole source of SAOS s revenues, to be applied by legal mandate to repay its debt to the Central Bank of Chile. SAOS does not have any other material debt, as it is a special purpose legal entity created by Law 19,396 whose only business is to own Banco de Chile shares and repay the obligation to the Central Bank of Chile. 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 its debt; 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 paid-in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock to pay the entire accumulated deficit amount. As of March 31, 2013, SAOS maintained a surplus with the Central Bank of Ch$275,702 million, equivalent to 13.4% of our paid-in capital and reserves as of the same date. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Banking Industry 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, 2012, the outstanding subordinated debt balance held by SAOS amounted to Ch$754,322 million (including accrued interests). SAOS paid to the Central Bank a total of Ch$97,973 million during 2009, Ch$101,972 million during 2010, Ch$131,530 million during 2011 and Ch$124,342 million in 2012, exceeding in each of these years the required minimum annual payment.

As of December 31, 2012, the major shareholder of SM-Chile was LQ Inversiones Financieras S.A. (a subsidiary of Quiñenco S.A.), which owned, directly and indirectly, 58.2% of SM-Chile s total shares. As of the same date, our major shareholders were LQ Inversiones Financieras S.A., SAOS and SM-Chile, each having a direct participation of 33.1%, 31.8% and 13.5% in our total common stock, respectively.

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, 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 sets forth our capital expenditures in each of the three years ended December 31, 2010, 2011 and 2012:

	For the Year Ended December 31,		
	2010	**2011** (in millions of Ch$)	**2012**
Computer equipment	Ch$ 7,922	Ch$ 8,797	Ch$ 7,750
Furniture, machinery and installations	8,658	9,425	8,949
Real estate	5,387	3,481	337
Vehicles	362	370	945
Subtotal	22,329	22,073	17,981
Software	15,326	9,597	9,116
Total	**Ch$ 37,655**	**Ch$ 31,670**	**Ch$ 27,097**

Table of Contents

Our budget for capital expenditures for 2013 is Ch$46,203 million, 64.8% of which is related to information technology expenditures and 35.2% of which is associated with infrastructure projects. The budget for capital expenditures is in line with our strategic priorities of improving our efficiency and reinforcing our proximity to our customers, particularly in our retail banking segment, through physical as well as non-physical contact channels. These capital expenditures are principally financed by our capital and long-term debt financing.

Among the budgeted expenditures for information technology, 33.8% corresponds to projects under development intended to provide us with business solutions as well as productivity improvements, 30.8% is related to maintenance and upgrades to our main infrastructure, 26.7% is for projects related to the expansion and security reinforcement of our ATM network, and the remaining amount relates to technological renewal and the development of diverse projects for supporting commercial and back office activities.

Our 2012 budget for infrastructure expenditures includes disbursements associated with new branches, as well as the renovation and relocation of some of our existing commercial branches, and general maintenance and renewal investments.

BUSINESS OVERVIEW

Our Competitive Strengths

Building on our knowledge of the Chilean financial market, we have historically been able to develop significant competitive advantages based on our strong brand recognition, our widespread branch network, the diversity and relative size of our customer base, our highly competitive funding structure, the superior asset quality of our loan portfolio as compared to our peers in Chile, an attractive risk-return relationship and our market leadership in a diverse range of financial products and services.

Our main competitive advantages are:

Brand Recognition and Strong Corporate Image

We have been operating in the Chilean financial industry for 119 years under the Banco de Chile brand name. In order to provide our customers with differentiated value offerings and a wider range of financial products and services, we have also developed the Banco Edwards|Citi , Banco CrediChile and Banchile brand names. We believe our long-standing history in the Chilean market is recognized by our customers and the general public, who associate us with quality, reliability and social responsibility within the Chilean financial industry, as demonstrated in various polls conducted by well-known market research companies. According to market research conducted by Adimark GFK (part of the GFK Group), during 2012 we remained the most recognized brand among financial institutions operating in Chile. Also in 2012, Merco (a corporate reputation monitor headquartered in Spain) ranked Banco de Chile as the market leader in corporate reputation within the Chilean banking industry and the third-ranked company in Chile. We believe that our long history in the Chilean banking industry is a key element that differentiates us from our competitors.

Additionally, we believe that our merger with Citibank Chile reinforced our corporate image as a leading financial institution within Chile and allowed us to gain recognition among customers and investors all over the world.

We also believe that our strong corporate image is further strengthened by our commitment to social responsibility, which includes supporting the Teleton Foundation (a non-governmental organization dedicated to assisting and treating Chilean disabled children), our partnership with institutions dedicated to improving the quality of Chilean education, our participation in campaigns intended to improve the quality of life of needy people, our commitment to the development of sports in Chile by supporting the national soccer team and disabled athletes, and our environmental pledge that has led us to implement energy and forestry resources saving policies, as well as other initiatives intended to strengthen our role in, and contribution to, Chilean society.

Business Scale and Leading Market Position

We are one of the largest financial institutions in Chile and have become market leaders in a broad range of financial products and services within the Chilean financial system, as depicted in the following table:

	As of December 31, 2012	
	Market Share	**Market Position**
Commercial Loans(1)	19.0%	1st
Individuals Current Accounts Balances	31.0%	1st
Mutual Funds (Assets under management)	23.2%	1st
Net Fees and Commissions Income	24.2%	1st
Net Income for the Period(1)	29.0%	1st

Source: Superintendency of Banks and Chilean Association of Mutual Funds.

(1) Excluding operations of subsidiaries abroad.

We have traditionally been recognized as a financial institution with a strong presence in the wholesale segment, able to establish long-term relationships with the major local and multinational companies that operate in Chile. We have been able to maintain this leading position by continuously improving our products and services and supplementing them with comprehensive and tailored service models that allow us to further successfully serve our customers needs. We have also added value to our service offerings by including treasury products for hedging purposes, which is also supplemented by investment banking, insurance brokerage and other specialized financial services.

In addition, in the recent years we have focused on further penetrating the retail banking segment through diverse value offerings intended to cover all of the populations and enterprise segments we target. Therefore, over the last five years we have prioritized our loan growth in residential mortgage loans and payment channels, as we believe they are appropriate vehicles to build long-term relationships and customer loyalty, while increasing cross-selling opportunities. As a result, through our Commercial Division (Individual and SME Banking), we lead the market in services offered to high-income individuals for whom we have developed an attractive and complete portfolio of financial services, including a full range of wealth management services through some of our subsidiaries. Also, our Consumer Finance Division (Banco CrediChile) has become one of the largest providers of consumer loans among the Chilean banks consumer divisions, based on comprehensive service offerings for low- and middle-income individuals. This has been recently supplemented by the implementation of business solutions for low-scale entrepreneurs and individual customers in periphery districts. This broad variety of services has also enabled us to lead the Chilean market in terms of income from fees and commissions.

We believe our financial strength, prestige and brand recognition among Chilean customers have allowed us to become the market leader in terms of current account balances within the Chilean financial system, especially among individuals, who have demonstrated their preference for our services. Our position was further consolidated in the financial downturn in 2009, when we benefited from a flight-to-quality effect as investors were seeking a reliable institution in which to keep their funds.

Robust Customer Base and Nationwide Distribution Network

We believe that we have one of the largest customer bases among financial institutions in Chile. As of December 31, 2012, we had approximately 1,807,000 customers, including: approximately 1,121,000 borrowers, nearly 670,000 current accounts customers, approximately 181,000 time deposits, about 409,000 saving accounts and approximately 1,530,000 issued credit cards. Over the last three years, our customer base has expanded at a compound average growth rate (CAGR) of 5.9%. In line with our strategic priorities and the characteristics of the target segments we serve, our retail banking customer base (individuals and SMEs) has expanded by 6.0% (3-year CAGR) that compares to the 3.9% (3-year CAGR) recorded in our wholesale banking segment.

We believe that our robust customer base is both an essential driver of our business and a valuable asset that enables us to cross-sell our products and services.

In order to better serve our customers, we are present in all regions of Chile and strive to be accessible to every Chilean customer through our broad branch network, as well non-physical contact channels. As of December 31, 2012, we had a nationwide branch network of 434 branches, one of the largest within the Chilean banking industry, according to information published by the Superintendency of Banks. This network comprised 239 branches under our Banco de Chile brand name, 39 branches under our Banco Edwards|Citi brand name and 156 branches under our Banco CrediChile brand name. We believe that our broad branch network enables us to develop close relationships with our customers and therefore we are constantly assessing new branch locations throughout Chile.

In addition, to improve our customer service, we are constantly reviewing the appearance and layout of our branches. Our aim is to turn each of our branches into a business generating unit. As a result, we have redesigned our service models in most of our credit-lending units in order to maximize branch profitability and enable our on-site account executives to focus on serving customers and developing new businesses rather than focusing on administrative tasks, which have been mostly transferred to back-office staff.

We have also supplemented our branch network with non-physical remote channels, such as ATMs and internet-based online platforms. As of December 31, 2012 we had 1,915 ATMs throughout Chile and our Mobile Banking application for tablets and smartphones was the highest ranked in our local industry, according to a survey conducted by TBI Unit (a business intelligence company headquartered in Argentina) and was downloaded more than 165,000 times during 2012.

Table of Contents

Diversified Value Offering of Financial Products and Services

In response to the diverse needs of our customers, we have become a full-service financial group that operates under a multi-brand approach, offering a wide range of traditional banking products and services to our customers that are supplemented by the specialized financial services provided by our subsidiaries, including:

- securities brokerage,
- mutual funds management,
- securitization,
- factoring,
- financial advisory,
- insurance brokerage,
- collection services, and
- credit-assessment services.

In addition, our strategic alliance with Citigroup Inc. and our Global Connectivity Agreement have allowed us to broaden our service offerings by adding a comprehensive portfolio of international financial services that previously we could only partially provide.

All of the above is supplemented by service models that aim to be as tailored as possible, based on continuously improving segmentation methodologies that look for differentiated customers across all of our segments and sub-segments.

Competitive Funding Structure

We believe that we have a cost-effective and highly competitive funding structure based on our leading market position in current accounts and demand deposits, especially among individuals. According to the Superintendency of Banks, as of December 31, 2012, we held 31.0% of individuals current account balances, which placed us at the top of the Chilean financial industry in this regard. As of that same date, the total balance of our non-interest bearing current accounts and demand deposits represented 24.7% of our total funding structure as compared to the 16.7% reported by the Chilean financial system as a whole (excluding Banco de Chile).

Accordingly, we believe that our funding structure provides us with a funding cost advantage over our competitors (which use a higher proportion of interest bearing liabilities), as current accounts and demand deposits are the cheapest funding source available in Chile, since they are non-interest bearing liabilities.

We are also constantly striving to diversify our funding. In that effort, during 2012 we successfully placed approximately U.S.$1,300 million in senior (approximately U.S.$1,250 million) and subordinated bonds (approximately U.S.$50 million) within the local market. We were able to access new foreign debt markets like Peru (U.S.$.29 million) and Hong Kong (U.S.$164 million). Similarly, we established a commercial paper program in the U.S. market of U.S.$1,000 million.

Superior Asset Quality

We believe we are one of the Chilean financial institutions with the highest credit quality and the healthiest loan portfolio in Chile. We believe, this asset quality is the result of our well-known prudent risk management approach and our accurate credit risk models that are constantly improving and have enabled us to maintain relatively low levels of total past-due loans and high coverage indicators over the last few years.

According to the Superintendency of Banks, as of December 31, 2012, we had a delinquency ratio (total past-due loans as a percentage of total loans) of 1.0%, which is well below the delinquency ratio of 2.4% reported by

Table of Contents

the Chilean financial system (excluding Banco de Chile and operations of subsidiaries abroad) as of the same date. Additionally, we maintain the highest coverage ratio (allowances for loan losses to total past-due loans) in the Chilean financial system, which as of December 31, 2012 was equal to 2.4 times as compared to 0.9 times for the Chilean financial system (excluding Banco de Chile and operations of subsidiaries abroad).

Our Business Strategy

Vision

We aspire to be the best bank for our customers, the best place to work, the best investment for our shareholders and the bank with the strongest commitment to the community.

Throughout our history, we have aspired to be the leading bank in the Chilean financial system. This vision involves all of the diverse stakeholders related to our business and is shared and internalized by all areas across our organization, senior management and the board of directors.

Among the main stakeholders that we strive to satisfy are:

Our customers

Our aim is to gain substantial knowledge of our customers in order to align our value offerings to their needs, requirements and aspirations in order to build long-term relationships.

In addition, our brand recognition, corporate reputation and market leadership within the local financial industry represent important competitive advantages that we must capitalize on, preserve and improve by providing our customers with innovative and tailored value offerings.

Our employees

We are convinced that our human resources are one of our core competitive advantages, given our team s commitment, dedication and distinctive identity within the financial system.

We also believe that promoting a better work environment is key to providing exceptional customer service. For this reason, we focus on creating effective communication channels and developing a meritocratic culture by rewarding our staff s talents and achievements.

Our shareholders

We maintain our shareholders trust by engaging in projects and businesses intended to maximize the company s long-term value, while being prudent with regards to business-related risks.

Also, through commercial strategies that combine enhanced service quality and higher returns, we have been able to add significant value for our shareholders. This approach which we expect to maintain distinguishes us within the Chilean financial system.

Our community

We believe that our business actions and financial performance depend on our community involvement. As a result, we strive to continuously reinforce our commitment to the community by carrying out diverse social impact initiatives.

Thus, we are committed to entrepreneurship, the integration of disabled people, high-quality education and environmental protection.

Mission

To be a leading financial institution across all segments, providing first-class financial services with innovative solutions that fit our customers needs .

Table of Contents

To accomplish this mission, we believe it is essential to attain industry leadership in all businesses and financial areas in which we operate, namely, profitability, efficiency, business scale, customer base, human resources development and corporate social responsibility.

Also, this mission requires initiatives intended to achieve comprehensive excellence in management, with customer satisfaction as our major goal. This requires relying on the best information technology, business models and quality standards within the industry, all of which is summarized by the value creation cycle below:

Strategic Focuses

Our long-term strategy is to maintain and enhance our position as a leading financial institution in Chile by providing a broad range of financial products and services to corporations and individuals nationwide. As part of this strategy, we have developed a multi-brand approach to target different market segments. We intend to leverage our strongly positioned brand names Banco de Chile , Banco Edwards|Citi and Banco CrediChile in traditional banking, which are supplemented by specialized financial services (such as securities brokerage services, mutual funds management, securitization services, factoring services, financial advisory services and insurance brokerage services) provided by our subsidiaries that operate under the Banchile brand name.

Since the performance of our business depends on many factors, we cannot assure you that we will be able to implement our strategies successfully or that we will be able to reach our strategic goals. For a discussion of certain risks applicable to our operations, industry and country we operate in, see Item 3. Key Information Risk Factors.

Our long-term strategy is based on the following key goals:

Maintain Profitable Growth

Our business model is focused on those lines of business that add significant economic value to our shareholders, have appropriate levels of risk and allow us to strengthen long-term relationships with our customers. We seek sustained growth, particularly in higher-margin segments and business areas that show strong growth potential. Accordingly, in recent years we have reoriented our business focus towards the retail, large companies and treasury segments, in which we aim to achieve the same prominent position that we have obtained in the corporate segment. Thus, we strive to:

Lead the Retail Banking Segment

In our retail banking segment, our aim is to lead the market by creating differentiated and comprehensive value offerings based on a deep and continuously improving segmentation that permits us to engage in profitable and high-growth potential business opportunities. Thus, we expect to expand our business and customer base by developing tailored service models, enlarging our branch network, enhancing our presence in the Small and Medium Companies segment and reinforcing certain lending products that should enable us to consolidate long-term relationships with our customers, especially through payment channels usage (such as credit cards) and residential mortgage loans.

Table of Contents

To supplement this strategy, in 2011 we launched our new Banca Móvil , a mobile banking solution for our retail banking customers available for tablets and smartphones. During 2012, the application was downloaded more than 165,000 times and was the highest ranked in Chile, as reported by TBI unit (a business intelligence monitor company). Also, we continue to reinforce strategic lending products such us our residential mortgage business, where we gained 82 bp market share during 2012, and our credit card business, by increasing the penetration in targeted segments by adding 28 bp market share in credit card purchases.

During 2012 we expanded our financial services in order to increase banking services in the population and enterprises segments that have not been fully penetrated. As part of these efforts, we implemented the Caja Chile project that provides lower income customers with a suite of basic financial services through a transactional platform located in local convenience stores that enter into commercial agreements with us. As of December 31, 2012, we had a network of more than 1,000 convenience stores that were added to the project. Similarly, in order to offer more specialized solutions to a wide range of micro businesses in Chile, we created Microentreprises Banking that operates within our Consumer Division. As of December 31, 2012 we had implemented 40 platforms of this banking segment and had added more than 7,500 customers.

This strategy intends to take advantage of the retail banking segment s growth potential. Even though Chile s per capita GDP has tripled over the last 20 years, banking penetration in the Chilean economy is still below comparable countries, particularly within the low- and middle-income population segments and with respect to certain banking products such as residential mortgage loans. Thus, we believe we can further grow this segment since, according to the Superintendency of Banks, as of December 31, 2012, we had a 22.0% market share in consumer loans and a 17.2% market share in residential mortgage loans, which are 2.2% and 4.4% below the market leader, respectively. Due to our effective commercial strategies, during 2012 we were able to substantially reduce the gap between us and the market leader in both products. Prior to 2012, the gap was 3.3% in consumer loans and 6.9% in residential mortgage loans.

Enhance the Wholesale Banking Segment

In our wholesale banking segment (large companies and corporations), we aim to maintain our leading market position in terms of loans and focus on achieving higher profitability by improving our value offerings in order to increase cross-sell. Thus, we are focused on: improving our offering of cash management services, increasing the penetration of products designed by our Treasury, enhancing our presence in certain lending products such as leasing and factoring, and promoting international businesses by taking advantage of the commercial synergies related to both our merger with Citibank Chile (such as the Global Connectivity Agreement with Citigroup) and the specialized financial services offered by our subsidiaries, such as securities brokerage, mutual funds management and financial advisory.

We believe that we have already achieved significant improvements in these matters. According to our management information system, we have increased our cross-sell indicator of non-lending revenues to lending revenues from 1.33 times in 2009 to 1.96 times in 2012. As a result of the previously mentioned initiatives, we expect to keep enhancing our cross-sell strategy and the wholesale segment s profitability.

In addition to our traditional lending activities, we have developed supplemental financial services in order to diversify our revenue sources and continue to grow profitably, such as foreign exchange derivative transactions and fee-based products and services. As a result, our consolidated income from fees and other services has become an important and stable source of revenue, reaching Ch$308,773 million (or 24.5% of our total operating revenues) in 2011 and Ch$307,257 million (or 22.9% of our total operating revenues) in 2012. We aim to continue increasing our net fees and commissions income by developing new products and services and by reinforcing cross-sell in the retail and wholesale segments.

Table of Contents

During 2012 we promoted diverse services, such as leasing, factoring and cash management. As for leasing, based on specific commercial initiatives we added 1,200 customers, which represented a 13.7% annual increase and translated into a year-end balance of Ch$1,275 billion. Similarly, our factoring services continue to gain market presence by innovating wider value propositions for our customers, while we are constantly strengthening our Global Transactional Services by enhancing our offer of cash management services. This translated into an 8.0% annual rise in collection and payment services and approximately 103,000 new sight accounts. We are also constantly looking for profitable business opportunities with potential partners, such as our merger with Citibank Chile. In this regard, the Global Connectivity Agreement with Citigroup enabled us to assist our customer in significant off-shore transactions during 2012, especially in international bond placements.

Improve Operating Efficiency

We believe that operating efficiency is a key competitive advantage within a highly competitive market such as the Chilean financial system. As a result, we strive to increase our efficiency levels by increasing productivity and reducing costs. To achieve this goal, we have invested in information technology and the development of simpler, more manageable, secure and modern business processes and platforms to attain faster response times and higher productivity.

In the last three years, we have invested approximately Ch$58,300 million (approximately Ch$23,200 million, Ch$18,400 million and Ch$16,700 in 2010, 2011 and 2012, respectively) in technology, mainly in software and hardware, as we believe this is one of the best ways to improve our service quality and operating efficiency. Similarly, we are developing internal processes intended to reduce and keep our expenses under control.

In 2012, we focused on improving operating efficiency through diverse projects intended to enhance internal operating processes in quality and timing, as well as reinforcing security in transactional services. Whereas the former was executed through increasing automation of back-office matters and the implementation of new IT platforms for financial planning and commercial tasks, the latter will enable us to reduce operational risks in the future, based on the setup of anti-fraud security softwares for electronic transfers and security measures for avoiding attacks to our ATMs network.

As a result, our efficiency ratio has maintained suitable levels over the last three years. During 2010, 2011 and 2012, our consolidated operating expenses represented respectively 46.7%, 48.7% and 47.3% of our consolidated operating revenues, which favorably compare to the industry average.

We believe that we still have room to improve our efficiency ratio in the coming years by enhancing our strategic development capabilities, increasing our business scale (generating economies of scale), developing economies of scope by incorporating new financially related businesses, reinforcing the productivity of our branch network, enhancing our remote transactional channels, improving our credit processes, developing a higher level of automation in our internal processes and reinforcing our cost controls and monitoring procedures.

Achieve Superior Service Quality

We are convinced that in a highly competitive industry, such as the Chilean banking system, a key element of competition is a customer-based focus, in order to generate loyalty and long-term relationships. To achieve this goal, we strive to continuously improve our relationship with our customers by developing commercial strategies aligned with their needs, as well as improving our time response and customer satisfaction indicators.

Consistent with this view, in 2009 we created a new area responsible for assessing and improving the quality of our services. This area has set new policies and projects to achieve the highest service quality standards within the Chilean banking industry. The area is composed of work teams of employees from different areas of the Bank, who are committed to develop and promote a high-quality culture in the Bank.

During 2012 our attention was focused on: (i) ensuring the operational performance and availability of contact channels, services and systems, (ii) automating operational procedures with a focus on minimizing errors

Table of Contents

and hand-made tasks, (iii) redesigning critical processes that have an impact on customer satisfaction by improving availability, training, homogeneity and time response for each segment or contact channel, (iv) redesigning the requirement and complaint attention process by applying a customer-oriented vision (timing and quality), (v) expediting credit approval processes and (vi) developing specialized solutions and enhancing the use of remote attention platforms for wholesale banking customers.

We expect to continue benchmarking our competitors service performance and incorporate best practices from other markets, industries and countries.

Promote Excellence in Human Resources Management

We believe human resources are a key element to achieve our long-term goals. In order to consolidate profitable growth, attain operating efficiency and achieve high service quality standards over the long term, we believe it is essential to have a motivated and highly-qualified workforce that is aligned with our corporate goals.

Accordingly, we strive to develop a staff committed to both excellence and our corporate values by establishing a distinctive culture among our employees and promoting: (i) a clear focus on the customer, (ii) confidence and leadership, (iii) meritocracy and high performance, (iv) collaboration and teamwork, (v) accountability and empowerment and (vi) innovation and continuous improvement.

We also seek to remain as one of the most respected employers in Chile. For this reason, in the past we carried out a comprehensive talent inventory review in order to suitably identify our staff s skills and define the correct policies in order to optimize the management of our human resources. During 2012 we undertook diverse projects and initiatives intended to reinforce these topics by emphasizing the excellence in selection and recruitment processes, which translated into a new platform that manages the internal mobility of our talents. Also, we improved the competence evaluation methodology intended to detect remarkable performance and enhance the career development of our staff. As for training activities, we have continued to focus on generating leadership capabilities through diverse programs. We believe these initiatives are aligned with our strategy and the professional development that our team aspires to achieve.

Table of Contents

Ownership Structure[1]

The following diagram shows our ownership structure as of April 15, 2013:

(1) The ownership structure diagram only reflects share ownership and it does not represent voting rights. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders

Table of Contents

Principal Business Activities

We are a full-service financial institution that provides, directly and indirectly through our subsidiaries and affiliates, a wide variety of lending and non-lending products and services to all segments of the Chilean financial market. Accordingly, for management purposes we organize our operations in the following four business segments:

The information related to our business segments presented in this section has been prepared in accordance with our internal reporting policies. See Item 5. Operating and Financial Review and Prospects Results of Operations for the Years Ended December 31, 2010, 2011 and 2012 Business Segments and Item 5. Operating and Financial Review and Prospects Results of Operations for the Years Ended December 31, 2010, 2011 and 2012 Summary of Differences between Internal Reporting Policies and IFRS for a description of the most significant differences between our internal reporting policies and IFRS.

The following table sets forth information on the composition of our loan portfolio and our consolidated income before income tax in accordance with our internal reporting policies for the year ended December 31, 2012, allocated among our principal business segments:

	Total Loans		Income before Income Tax[(1)]
	For the Year Ended December 31, 2012 (in millions of Ch$, except percentages)		
BANK S INTERNAL REPORTING POLICIES:			
Retail market	Ch$ 9,457,468	50.4%	Ch$ 254,209
Wholesale market	8,812,726	47.0	196,660
Treasury and money market operations			22,387
Operations through subsidiaries	491,571	2.6	46,545
Other (Adjustments and Eliminations)			
Total	**Ch$ 18,761,765**	**100.0%**	**Ch$ 519,801**

(1) This net income breakdown is used for internal reporting and planning purposes and it is based on, among other things, our estimated funding cost and direct and indirect cost allocations. This breakdown may differ in some extents from breakdowns of our operating income for financial reporting and regulatory purposes. Separate information on the operations, assets and income of our financial services subsidiaries and affiliates is provided below under Operations through Subsidiaries.

Table of Contents

The following table sets forth our consolidated operating revenues in accordance with our internal reporting policies, allocated among our principal business segments:

	For the Year Ended December 31,		
	2010	2011	2012
BANK S INTERNAL REPORTING POLICIES:		(in millions of Ch$)	
Retail market	Ch$ 672,527	Ch$ 773,814	Ch$ 860,058
Wholesale market	281,058	281,994	321,004
Treasury and money market operations	77,723	31,432	32,590
Operations through subsidiaries	150,312	148,670	142,524
Other (adjustments and eliminations)	(12,838)	(12,128)	(14,137)
Total Operating Revenues	**Ch$ 1,168,782**	**Ch$ 1,223,782**	**Ch$ 1,342,039**

The following table sets forth a geographic market breakdown of our operating revenues in accordance with our internal reporting policies for the years indicated:

	For the Year Ended December 31,		
	2010	2011	2012
BANK S INTERNAL REPORTING POLICIES:		(in millions of Ch$)	
Chile	Ch$ 1,181,530	Ch$ 1,235,817	Ch$ 1,356,111
Banking operations	1,031,308	1,087,240	1,213,652
Operations through subsidiaries	150,222	148,577	142,459
Foreign operations	90	93	65
Operations through subsidiaries	90	93	65
Other (adjustments and eliminations)	(12,838)	(12,128)	(14,137)
Total Operating Revenues	**Ch$ 1,168,782**	**Ch$ 1,223,782**	**Ch$ 1,342,039**

Retail Market

Our retail banking segment serves the financial needs of individuals and small and medium-sized companies through our branch network. As of December 31, 2012, we had a total of 434 branches, of which 278 operated under our Banco de Chile and Banco Edwards Citi brand names, while 156 operated under our Banco CrediChile brand name.

As of December 31, 2012, our retail banking segment represented 50.4% of our total loans and accounted for Ch$254,209 million of our income before income tax for the year ended December 31, 2012.

In terms of composition, as set forth in the following table, as of December 31, 2012 our retail banking segment s loan portfolio was principally focused on residential mortgage loans, which represented 44.3% of the segment s loan book. The remaining loans were distributed between consumer (29.8%) and commercial loans (25.9%).

	As of December 31, 2012 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Commercial loans	Ch$ 2,449,136	25.9%
Residential mortgage loans	4,190,210	44.3
Consumer loans	2,818,122	29.8

Total	**Ch$ 9,457,468**	**100.0%**

We serve the retail market through two different and specialized divisions: (i) the Commercial Division (Individual and SME Banking) and (ii) the Consumer Finance Division (or Banco CrediChile).

Commercial Division (Individual and SME Banking)

The Commercial Division (Individual and SME Banking) is responsible for offering financial services to individuals with monthly incomes over Ch$500,000 (or Ch$6.0 million per year) and to small and medium-sized companies with annual sales of up to approximately Ch$1,600 million. This division manages the portion of our branch network that operates under the brand names Banco de Chile and Banco Edwards Citi and had 278 branches as of December 31, 2012.

The strategy followed by the Commercial Division (Individual and SME Banking) is mainly focused on sub-segmentation, multi-brand positioning, cross-sell of lending and non-lending products and service quality based on customized service models for specific customer needs. Loyalty programs have been increasingly incorporated into our commercial targets for each sub-segment and they have enabled us to increase the use of our credit cards and our commission based income. In addition, the division s operations count on the support of specialized call centers and internet banking services, along with a wide range of management tools that allow us to measure returns, the performance of cross-sold products and the effectiveness of marketing campaigns. During 2012, we continued to promote the use of non-physical or remote channels by consolidating our Banca Móvil (mobile banking) application, an internet-based solution that allows our customers to make banking transactions from their tablets and smartphones. In 2012, this application was ranked highest in Chile by a study conducted by TBI Unit. As of December 31, 2012 the application was downloaded approximately 165,000 times and was used by roughly 145,000 customers.

As of December 31, 2012, the Commercial Division (Individual and SME Banking) served 833,659 individual customers (hereafter customer should be understood as the sum of individuals or companies that hold at least a current account, a credit card or a sight account) and 69,930 small and medium-sized Chilean companies. This customer base resulted jointly in total loans granted to 662,104 borrowers, which includes 91,548 residential mortgage loans debtors, 86,365 commercial loan debtors, 362,306 utilized lines of credit, 318,444 installment loans and 1,037,467 credit card accounts. As of the same date, the division held 668,739 current accounts, 153,238 savings accounts and 160,031 time deposits.

As of December 31, 2012, loans granted by our Commercial Division (Individual and SME Banking) represented 46.3% of our total loans and 91.8% of loans granted by our retail market segment. The following table sets forth the composition of the division s loan portfolio in accordance with our internal reporting policies, as of December 31, 2012:

BANK S INTERNAL REPORTING POLICIES:	As of December 31, 2012 (in millions of Ch$, except percentages)	
Commercial Loans		
Commercial credits	Ch$ 2,070,091	23.8%
Leasing contracts	249,916	2.9
Other loans	118,354	1.4
Total Commercial Loans	**2,438,361**	**28.1**
Residential Mortgage Loans	**4,128,128**	**47.5**
Consumer Loans		
Installment loans	1,275,712	14.7
Credit cards	600,153	6.9
Lines of credit and other loans	243,524	2.8
Total Consumer Loans	**2,119,389**	**24.4**
Total	**Ch$ 8,685,878**	**100.0%**

We offer a variety of financial services to individuals and small and medium-sized companies, directly through the division or indirectly through our subsidiaries, such as current accounts, automatic bill payment, debit cards, credit cards, revolving credit lines, residential mortgage loans, consumer loans, commercial loans, mortgage loans for general purposes, leasing agreements, factoring services, mutual funds management and stock brokerage, support in foreign trade transactions, collection services, payments and collections, insurance brokerage (which includes life and casualty insurance), savings instruments and foreign currency services.

Installment Loans

Our consumer installment loans are generally incurred, up to a customer s approved credit limit, to afford the goods or services purchases, such as cars, travels and household furnishings. Consumer loans may be denominated in both pesos and UF, bear fixed or variable interest rates and are generally repayable in installments over a period of up to 36 months.

33

As of December 31, 2012, we had Ch$1,275,712 million in installment loans granted by our Commercial Division (Individual and SME Banking), which accounted for 45.3% of the retail market business segment s consumer loans. Most of these installment loans are denominated in Chilean pesos and are payable monthly.

Residential Mortgage Loans

As of December 31, 2012, we had outstanding residential mortgage loans of Ch$4,198,667 million, which represented 22.4% of our total loans. According to information published by the Superintendency of Banks, as of December 31, 2012, we were Chile s second largest privately owned bank in terms of mortgage loans, accounting for approximately 21.6% of mortgage loans granted by Chilean privately owned banks, excluding loans granted by Banco del Estado, a government-owned bank, and subsidiaries that operate abroad.

Our residential mortgage loans are generally denominated in UF and have maturities that range between five and thirty years. As of December 31, 2012, the average residual maturity of our residential mortgage loan portfolio was 17.2 years. Originally, we funded our residential mortgage loans through the issuance of mortgage finance bonds, which are recourse obligations only to us with payment terms that are matched to the residential loans. Also, the mortgage finance bonds bear real market interest rates plus a fixed spread over the variable rate of the UF, which permits us to reduce our exposure to interest rate fluctuations and inflation. Chilean banking regulations allow us to finance up to 100% of a residential mortgage loan with mortgage finance bonds, based on the purchase price of the property securing the loan or the appraised value of such property. In addition, we generally require that the monthly payments on a residential mortgage loan not exceed 25% of the borrower s household after-tax monthly income, when the customer belongs to the low-income population segment. However, that limit may be adjusted for the middle and high-income population segments.

Over the last decade, we have also promoted the expansion of *Mutuos Hipotecarios*, a mortgage-lending product, which is not financed by mortgage finance bonds, but instead through our general funds. *Mutuos Hipotecarios* allow customers to finance up to 100% of the purchase price or the appraised value of the property, whichever is lower, instead of the 75% that a standard mortgage would allow. As of December 31, 2012, our residential mortgage loan portfolio was principally composed of *Mutuos Hipotecarios*, as customers have preferred them due to their flexibility and simplicity (for instance the interest rate is known in advance by the customer), as they permit financing of up to 100% of the property s purchase price and are easier to prepay.

The following table sets forth the composition of our residential mortgage loan portfolio by product type:

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2012 (in millions of Ch$, except percentages)**	
Secured Residential Mortgage Loans(1)		
Loans financed with Mortgage Bonds	Ch$ 109,215	2.6%
Mutuos Hipotecarios	4,089,452	97.4
Total Secured Residential Mortgage Loans	**Ch$ 4,198,667**	**100.0%**

(1) Correspond to the Bank s total secured residential mortgage loans and not only those associated with the Commercial Division (Individual and SME Banking).

As shown above, as of December 31, 2012 residential mortgage loans financed with Mortgage Bonds represented 2.6% of our total residential mortgage loan portfolio, while the remaining 97.4% corresponded to *Mutuos Hipotecarios*. As of the same date, loans financed with Mortgage Bonds had an average origination period of 12 years (the period from the date when the loans were granted) and 28.4% of these loans were granted by CrediChile. Conversely, as of December 31, 2012 the *Mutuos Hipotecarios* portfolio had an average origination period of 3.5 years (the period from the date when the loans were granted to the specified date) and just 0.9% of these loans were granted by CrediChile. In terms of credit risk, in 2012, loans financed with *Mortgage Bonds*, as well as *Mutuos Hipotecarios,* had low gross credit risk ratios of 0.62% and 0.10%, respectively. The difference between both ratios is explained by the previously mentioned factors and also by the Bank s stricter requirements to grant *Mutuos Hipotecarios* that may finance up to 100% of the property s purchase price. It is important to mention

34

Table of Contents

that the residential mortgage loan portfolio financed with *Mortgage Bonds* is annually decreasing in amount and as a proportion of the total residential mortgage loan portfolio, since currently customers prefer *Mutuos Hipotecarios*. Accordingly, the portfolio of residential mortgage loans financed with Mortgage Bonds is expected to have increasing gross credit risk ratios over time until its expiration, because the proportion of non-performing loans becomes higher as long as responsible borrowers terminate their liability with the bank.

Regarding Mortgage Bonds that finance residential mortgage loans, the Bank is solely responsible for the payment of the Mortgage Bond obligation to the mortgage bond holders, regardless of the payment behavior of the residential mortgage borrower. Accordingly, in the ordinary course of business, none of our residential mortgage loans serves as a guarantee or collateral for our mortgage bonds.

For those loans that finance a higher portion of the property appraised value, we demand that customers comply with stricter requirements, which are verified during the credit assessment stage. These requirements are related to: (i) the history of the relationship between the Bank and the customer (new or current client), (ii) credit risk scores, (iii) monthly income, (iv) type of job (employed or self-employed), and (v) years employed. In order to illustrate the above mentioned, the table below sets forth an example of requirements for residential mortgage loans that finance up to 90% and more than 90% of the property value, with a common term and granted to employed as well as self-employed new customers.

Credit granting requirements

(in millions of Ch$, except percentages)

New Clients	**Requirements (in millions of Ch$, except percentages)**	
Loan / Property value	**£ 90%**	**> 90%**
Employed		
Years employed	³ 1 year	³ 2 years
Monthly Income	³ Ch$0.4	³ Ch$0.85
Self-Employed		
Years Employed(1)	³ 2 years	³ 3 years
Monthly Income	³ Ch$0.5	³ Ch$1.2

(1) In case of self-employed clients, years employed refers to the minimum period of time in which the customer has been filing annual tax declarations with the Chilean Internal Revenue Service.

During 2012, 46.8% of the residential mortgage loans granted to our customers financed between 90% and 100% of the property value. Similarly, during 2012, loans financing between 75% and 90% of the property appraised value represented 27.3% of these loans, loans financing between 50% and 75% of the property value represented 17.3% of these loans, and loans financing less than 50% of the property value represented 8.6% of these loans.

Table of Contents

An additional feature of our mortgage loans is that mortgaged property typically secures all of the mortgagor s credit with us, including installment loans and due balances associated with credit cards and credit lines. Our total amount of loans secured by real estate guarantees, their loan-to-value (LTV) ratio and their relative share in our total loan portfolio, as of December 31, 2012, are depicted in the table below:

	As of December 31, 2012		
BANK S INTERNAL REPORTING POLICIES:	**Outstanding Balance**	**LTV(2)(3)**	**% of Bank s Total Loans**
	(in millions of Ch$, except percentages)		
Secured Loans[1]			
Residential Mortgage Loans	Ch$ 4,198,667	63.6%	22.4%
Other than mortgage loans	491,422	20.5	2.6
Total Secured Loans	**Ch$ 4,690,089**	**71.1%**	**25.0%**

(1) Correspond to Bank s total secured loans and not only those associated with the Commercial Division (Individual and SME Banking).
(2) Unless otherwise indicated, LTV ratio is computed as the amount of secured loans divided by the value of their associated collateral.
(3) For other-than-mortgage loans, the LTV ratio is computed as the amount of the excess guarantee (after deductions) of the balance of the associated residential mortgage loans, as those guarantees are initially established in order to secure the residential mortgage loan.

The LTV ratios provided above are based on estimated property values that we update monthly with the collateral valuation models managed by our Corporate Risk Division. These models determine a rate of depreciation that provides an updated collateral value, based on variables such as geographic location, last appraisal date, type of property and type of customer. Accordingly, the LTV ratios set forth above take into account the most recent available data regarding collateral values.

In addition, the following table sets forth the composition of the other-than-mortgage loans secured by real estate guarantees:

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2012 (in millions of Ch$, except percentages)**	
Secured Other-than-Mortgage Loans[1]		
Consumer Loans	Ch$ 327,953	66.7%
Credit Lines	47,366	9.7
Credit Cards	116,103	23.6
Total Secured Other-than-Mortgage Loans	**Ch$ 491,422**	**100.0%**

(1) Correspond to Bank s total secured Other-than-Mortgage Loans and not only those associated with the Commercial Division (Individual and SME Banking).

Unlike in other countries, in addition to the specific legal rights afforded by the mortgage loan (including foreclosure rights), the Bank may collect the pending balance of the mortgage loan over other assets of the mortgage debtor based on certain legal liens provided by law (*derecho de prenda general*). Regarding the foreclosure processes, as permitted by Chilean regulations we may write-off secured loans (such as residential mortgage loans) the earlier of 48 months from the date the loans become overdue and once we have made all efforts for recovering the past due loan without success. This applies to residential mortgage loans financed with mortgage finance bonds as well as for *Mutuos Hipotecarios*. Our foreclosure processes comply with the procedures specified by Chilean regulation. However, as we strive to continuously improve our collection processes, we have achieved average terms of 30 months for foreclosures associated with residential mortgage loans.

As for our historical loss rates, we periodically review our collateral pricing models by adjusting the parameters that support them, such as appreciation and depreciation rates, as well as updated recovery and loss rates, based on historical and empirical data. Thus, we normally revise our collateral pricing models by incorporating updated information from re-appraised assets or foreclosure processes that have been completed by the Bank in the past.

In addition, the valuation of guarantees is based on a prudent approach, which aims to anticipate and cover unexpected reductions in their market price as a result of changes in market variables, such as an unforeseen slowdown in the global or local economy, lack of liquidity of real estate assets or decrease in real salaries. Accordingly, our collateral pricing models depreciate the value of the guarantee regarding the market value determined by an independent appraiser. This approach has allowed us to minimize the loss rates, as the value obtained from auctions (if foreclosure applies) generally exceeds the value assigned to the asset as guarantee.

Credit Cards

As of December 31, 2012, we issued both individual and corporate Visa, MasterCard and Diners credit cards. In addition to traditional credit cards, our portfolio also includes co-branded cards (e.g., Travel Club, Global Pass, and Advantage, among others), and 61 affinity card groups, most of which were associated with our co-branded programs.

Two of our affiliates, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2012, Transbank S.A. had twelve shareholders and Nexus S.A. had seven shareholders, all of which were banks. As of the same date, our equity ownership in Transbank S.A. was 26.2 and our equity ownership in Nexus S.A. was 25.8%

As of December 31, 2012, the division had 1,037,467 valid credit card accounts, with 1,203,226 credit cards issued to individuals and small and medium-sized companies. Total charges on our credit cards during 2012 amounted to Ch$2,121,674 million, with Ch$1,768,992 million corresponding to purchases and service payments in Chile and abroad and Ch$352,682 million corresponding to cash advances both within Chile and abroad. These amounts of purchases and withdrawals (which do not include charges associated with credit cards issued by CrediChile) accounted for 26.5% of the total charge volume of banks credit cards issued in Chile in 2012, according to statistics provided by Transbank S.A.

As of December 31, 2012, our credit card loans to individuals and small and medium-sized companies amounted to Ch$600,153 million and represented 21.3% of our retail market business segment s consumer loans.

We believe that the Chilean market for credit cards has a high growth potential, especially among lower- and middle-income customer segments, as the average merchant fees should continue to decline due to increasing competition from other banks that operate in Chile, as well as large department stores and other non-banking competitors that are involved in the issuance of credit cards. As a result, in 2010 we created a new Credit and Debit Card Area, which is responsible for developing commercial strategies to reinforce this payment channel by supporting the activities carried out by our Commercial Division (Individual and SME Banking). Based on this strategy, the mentioned business unit issued roughly 178,748 new credit cards in 2012 and consolidated the strategic alliance settled in 2011 with a mobile phone provider that resulted in the new Banco de Chile | Entel credit card.

Commercial Credits

Commercial loans granted by our Commercial Division (Individual and SME Banking) mainly consist of project financing and working capital loans granted to small and medium-sized companies, which are denominated in Chilean pesos, UF and U.S. dollars and may bear fixed or variable rates of interest and generally mature between one and three months. As of December 31, 2012, our Commercial Division (Individual and SME Banking) had outstanding commercial loans of Ch$2,070,091 million, representing 21.9% of the retail market business segment s total loans and 11.0% of our total loans as of the same date.

Leasing Contracts

Leasing contracts are financing leases for capital equipment and property. Leasing contracts may bear fixed or variable interest rates and they generally have terms that range from one to five years for equipment and from five to twenty years for properties. Most of these contracts are denominated in UF. As of December 31, 2012, our Commercial Division (Individual and SME Banking) had outstanding leasing contracts of Ch$249,916 million, representing 2.6% of the retail market business segment s total loans and 1.3% of our total loans as of the same date.

Non-Residential Mortgage Loans

Non-residential mortgage loans granted to individuals and small- and medium-sized companies are loans intended to finance the acquisition of offices, land, facilities and other real estate assets. Non-residential mortgage loans are denominated in UF and generally have maturities between eight and twelve years. As of December 31, 2012, our Commercial Division (Individual and SME Banking) had non-residential mortgage loans of approximately Ch$60,125 million, representing 0.6% of the retail market business segment s total loans and 0.3% of our total loans as of the same date.

Debit Cards

We offer different types of debit cards to our customers. Depending on their specifications, these cards can be used for banking transactions at ATMs that operate on the local network, such as Redbanc, the Visa International PLUS network, the local network of merchants participating in the local Redcompra debit program or the international network of merchants associated with the Electron program. We have given different names to these debit cards depending on the card s specific functions and the link between the brand and target market which they serve. During 2012, we offered the following cards: *Chilecard Electron, Chilecard Plus, Chilecard Normal, Banjoven, Multiedwards and Citicard*. As of December 31, 2012, according to monthly statistics provided by Transbank S.A., the division had a 18.2% market share of debit card purchase transactions (not including debit cards issued by Banco CrediChile, as those are reported under our Consumer Finance Division), which corresponds to approximately 58.5 million transactions throughout the year.

Lines of Credit

The Commercial Division had approximately 571,479 approved lines of credit to individual customers and small and medium-sized companies as of December 31, 2012, and outstanding advances to 362,306 individual customers and small and medium-sized companies that totaled Ch$243,505 million, or 2.6% of the retail market business segment s total loans and 0.3% of our total loans.

Our lines of credit for individual customers are generally available on a revolving basis, up to an approved credit limit, and may be used for any purpose. Advances under lines of credit are denominated in Chilean pesos and bear an interest rate that is set monthly.

Deposit Products

We strategically offer deposit products to increase our deposit-taking activities as a means of diversifying our sources of funding. We believe that the deposits of our individual customers provide us with a relatively low-cost, stable source of funding, as well as an opportunity to cross-market our other products and services. In this regard, we offer current accounts, time deposits and savings accounts to our individual customers. Current accounts are Chilean peso-denominated and the majority bear no interest (approximately 0.1% of our total current accounts are interest-bearing), and savings accounts are denominated in UF and bear a fixed-interest rate. Time deposits may be denominated in Chilean pesos, UF and U.S. dollars and most bear interest at a fixed rate with terms that range between thirty to 360 days.

While historically demand has been mainly for UF-denominated deposits during periods of high inflation, demand for Chilean peso-denominated deposits has increased in recent years as a consequence of lower and more stable inflation rates in Chile. This trend was also observed during the financial crisis of 2008 and 2009, when we benefited from a flight-to-quality effect. Due to the high volatility observed in the financial markets and low interest rates (in line with monetary stimulus prompted by central banks worldwide) customers and non-customers increasingly deposited their funds in our current accounts, particularly those denominated in Chilean pesos, as inflation was negative.

Consumer Finance Division (Banco CrediChile)

The Consumer Finance Division provides loans and other financial services to low and middle-income segments (individuals whose monthly incomes range from Ch$170,000 to Ch$500,000), which historically have only been partially served by financial institutions. Also, our Consumer Finance Division serves micro-businesses. Banco CrediChile represents an alternative delivery channel for our products and services to these segments, maintaining a separate brand supported by a network of 156 Banco CrediChile branches as of December 31, 2012. Banco CrediChile was established in 2004 from what was formerly our consumer banking division. During 2008, Banco CrediChile was merged with the consumer division of Citibank Chile (Corporación Financiera Atlas S.A.) as a consequence of our merger with Citibank Chile.

Banco CrediChile offers its customers a variety of banking products, such as consumer loans, credit cards, residential mortgage loans and a special demand deposit account (see CrediChile Sight Accounts) targeted at low-income customers. As of December 31, 2012, Banco CrediChile had 880,759 customers and total loans outstanding that amounted to Ch$771,590 million, representing 4.1% of our total loans outstanding as of the same date.

The following table sets forth the composition of Banco CrediChile s loan portfolio in accordance with our internal reporting policies, as of December 31, 2012:

BANK S INTERNAL REPORTING POLICIES:	As of December 31, 2012 (in millions of Ch$, except percentages)	
Consumer loans		
Installment loans	Ch$ 620,414	80.4%
Credit cards	78,094	10.1
Lines of credit	225	0.0
Total consumer loans	**698,733**	**90.6**
Residential mortgage loans	**62,082**	**8.0**
Commercial loans	**10,775**	**1.4**
Total	**Ch$ 771,590**	**100.0%**

Our Consumer Finance Division focuses on developing and marketing innovative and customized products targeted to satisfy the needs of its customers while introducing them to the banking system. Banco CrediChile complements the services offered by our other business segments, especially our wholesale market segment, by offering services to employers, such as direct deposit capabilities, that stimulate the use of our services by employees.

In order to improve its value offering, during 2012 CrediChile launched two new services, namely, Caja Chile and Microenterprises Banking . Whereas the former consists of a limited range of basic financial services (such as deposits, withdrawals and bill payments) offered to customers and non-customers (not completely penetrated by the banking industry) through remote IT platforms located in small convenience stores within socially and/or geographically isolated areas of Chile, the latter is a specialized portfolio of financial services designed for Microenterprises (generally personal businesses) that includes financial advisory, lending and non-lending products and general financial solutions for a segment that has been traditionally uncovered by the banking services. As of December 31, 2012 Banco CrediChile had implemented the Caja Chile solution in more than 1,000 convenience stores, within 220 zones. As of the same date, 7,500 microenterprises customers had been added to the division s customer base, based on 40 implemented platforms throughout the Banco CrediChile branch network.

The Superintendency of Banks requires higher allowances for loan losses for those banks with low credit classifications. This is the case for Banco CrediChile, which employs a specific credit scoring system, developed by our corporate risk division, as well as other criteria to evaluate and monitor credit risk. Thus, in order to ensure the quality of its loan portfolio, Banco CrediChile adheres to our general loan origination procedures, particularly with regard to the use of our credit scoring system and credit management policies, including the use of credit bureaus and the services of the Superintendency of Banks. In addition, Banco CrediChile carries out rigorous procedures for collection of past-due loans through Socofin S.A., our specialized collection subsidiary. We believe that we have suitable procedures and infrastructure in place to manage the risk exposure of Banco CrediChile. These procedures allow us to take advantage of the attractive growth and earnings potential of this market segment while helping to manage exposure to higher risk. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Chilean Banking Industry The growth of our loan portfolio may expose us to increased loan losses and Item 3. Key Information Risk Factors Risks Relating to our Operations and the Chilean Banking Industry Our loan portfolio may not continue to grow at the same or similar rate.

Consumer Lending

Banco CrediChile provides short to medium-term consumer loans and credit card services. As of December 31, 2012, Banco CrediChile had approximately 353,357 consumer loan debtors related to credits with outstanding balances of Ch$620,414 million. As of the same date, Banco CrediChile customers had 313,357 valid credit card accounts, with total outstanding balances of Ch$78,094 million.

Table of Contents

CrediChile Sight Accounts

Banco CrediChile offers its customers CrediChile Sight Accounts, a basic deposit product that is flexible and easy to use. This product allows us to tap into a section of the consumer market that previously was not participating in the banking system. The CrediChile Sight Account is a non-interest bearing demand deposit account without checking privileges targeted at customers who want a secure and comfortable means of managing and accessing their money. Customers may use an ATM card linked to their Sight Account (which may include a revolving line of credit) to make deposits or automatic payments to other Banco CrediChile accounts through a network of 6,765 ATMs available through the Redbanc network as of December 31, 2012.

As of December 31, 2012, Banco CrediChile had approximately 883,718 Sight Accounts. Holders of these sight accounts pay an annual fee, a fee related to the number of withdrawals on the sight account line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a CrediChile Sight Account are withdrawn automatically on a monthly basis from funds available in the account. CrediChile Sight Account allows us to offer our wholesale customers the ability to pay their employees by direct deposit of funds into the individual employee s account at Banco CrediChile. We believe this product can lead to stronger long-term relationships with our wholesale customers and their employees.

Wholesale Market

Our wholesale market business segment serves the needs of corporate customers. In 2012, this business segment recorded annual operating revenues of approximately Ch$ 321,004 million, which represented 23.7% of our total operating revenues, and annual income before income tax of Ch$196,660 million, which represented 37.8% of our consolidated income before income tax. As of December 31, 2012, loans granted by this business segment amounted to Ch$8,812,726 million and represented 47.0% of our total loan portfolio.

The following table sets forth the composition of our portfolio of loans to the wholesale market in accordance with our internal reporting policies, as of December 31, 2012:

BANK S INTERNAL REPORTING POLICIES:	As of December 31, 2012 (in millions of Ch$, except percentages)	
Commercial credits	Ch$ 6,447,029	73.2%
Foreign trade loans	1,210,979	13.7
Leasing loans	863,243	9.8
Factoring loans	125,866	1.4
Other loans	165,609	1.9
Total	**Ch$ 8,812,726**	**100.0%**

As of December 31, 2012, we had 9,972 debtors out of a total of 22,678 wholesale customers. Our wholesale customers are engaged in a wide range of economic sectors. As of December 31, 2012, this business segment s loans were mainly related to:

- commerce and trade (approximately 20.8% of all loans made by this business segment);
- financial services (approximately 18.5% of all loans made by this business segment);
- communication and transportation (approximately 12.9% of all loans made by this business segment);
- construction (approximately 11.3% of all loans made by this business segment);

manufacturing (approximately 11.1% of all loans made by this business segment);

community, social and personal services (approximately 8.6% of all loans made by this business segment);

agriculture, forestry and fishing (approximately 7.1% of all loans made by this business segment); and

mining (approximately 3.5% of all loans made by this business segment).

Table of Contents

In line with our strategy of identifying and differentiating market segments in order to provide improved value propositions for a diversified customer base, we have defined two divisions within the wholesale market segment based on annual sales: (i) the Corporate Division and (ii) the Large Companies and Real Estate Division.

Corporate Division

The Corporate Division provides services to corporations whose annual sales exceed approximately Ch$70,000 million. This division s customers consist of a large proportion of Chile s publicly-traded companies, subsidiaries of multinational companies and conglomerates (including those operating in the financial, commercial, manufacturing, industrial and infrastructure sectors), and projects and concessions.

As of December 31, 2012, we had 782 corporations as debtors out of a total of 4,760 customers in our Corporate Division with total outstanding loans of Ch$3,923,429 million, which represented 20.9% of our total loan book as of the same date.

The following table sets forth the composition of our Corporate Division s loan portfolio in accordance with our internal reporting policies, as of December 31, 2012:

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2012 (in millions of Ch$, except percentages)**	
Commercial credits	Ch$ 3,211,581	81.9%
Foreign trade loans	478,944	12.2
Leasing loans	76,121	1.9
Factoring loans	62,073	1.6
Other loans	94,710	2.4
Total	**Ch$ 3,923,429**	**100.0%**

We offer a wide range of products to large corporations that include short- and long-term financing, working capital loans, mortgage loans, leasing, long-term syndicated loans and factoring, as well as investment banking services offered by our subsidiary Banchile Asesoría Financiera S.A., which include the underwriting of public and private securities offerings. We also offer payment services (payrolls, suppliers, pensions, dividends, etc.), collection services and connections to international funds transfer networks, as well as traditional deposit products, in particular current accounts.

As of December 31, 2012, we were party to approximately 1,067 payment service contracts and approximately 206 collection service agreements with corporations. We believe that cash management and payment service contracts provide us with a source of low-cost deposits and the opportunity to cross-sell 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 corporate customers, providing centralized collection services for their accounts receivable and other similar payments.

In order to provide highly competitive and differentiated services, our Corporate Division has the direct support of our Treasury and Money Market Operations segment, which directly fulfills our corporate customers liquidity, short-term loans and hedging needs. We have also improved our technology to facilitate connections with customers and enhance their self-service practices. Similarly, we offer derivative products, which we believe have become increasingly important, especially those associated with Chilean peso-U.S. dollar and UF-U.S. dollar forward contracts and interest rate swaps.

In recent years, the market for loans to corporations in Chile has been characterized by reduced margins, partly due to more direct access of such customers to domestic and international capital and debt markets. Consequently, we have focused on increasing the profitability in this segment through enhancing our cross-sell fee generating 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 corporate customers while preserving the ability to extend credit when appropriate business opportunities arise.

During 2012, the division continued to enrich its value propositions for satisfying customers needs. Thus, the Corporate Division focused on assisting some of its customers with financial advisory for international debt

issuances. Worth mentioning are the synergies that arise from the Global Connectivity Agreement with Citigroup when assisting our corporate customers with off-shore transactions. Similarly, based on collaboration between the Division and our Securitization subsidiary, a corporate customer (specifically a Road Concession Company) placed a securitized bond of approximately UF1.3 million in the local market.

Large Companies and Real Estate Division

Our Large Companies and Real Estate Division provides a broad range of financial products and services (such as electronic banking, leasing, foreign trade and financial consultancy) to companies with annual sales that range from approximately Ch$1,600 million to approximately Ch$70,000 million. Customers served by this division are those related to the commercial, manufacturing, agricultural, forestry, fishing, infrastructure and real estate sectors.

As of December 31, 2012, we had 9,190 large companies and real estate debtors out of a total of 17,918 customers in this Division. Loans granted by the Large Companies and Real Estate Division amounted to Ch$4,889,297 million as of the same date, which represented 26.1% of our total loans.

The following table sets forth the composition of the Large Companies and Real Estate Division s loan portfolio in accordance with our internal reporting policies, as of December 31, 2012:

BANK S INTERNAL REPORTING POLICIES:	As of December 31, 2012 (in millions of Ch$, except percentages)	
Commercial credits	Ch$ 3,235,448	66.2%
Leasing loans	787,122	16.1
Foreign trade loans	732,035	15.0
Factoring loans	63,793	1.3
Other loans	70,899	1.4
Total	**Ch$ 4,889,297**	**100.0%**

The products and services offered by this division are mainly related to commercial loans, lines of credit, foreign trade and foreign currency transactions, factoring services, leasing, mortgage loans, syndicated loans, mergers and acquisitions, debt restructuring assistance, payments and collections services, current accounts and related services, corporate credit cards, cash and investment management, forward contracts to hedge against currency fluctuations and insurance brokerage.

This division s aim is to deliver exceptional service to its customers based on proactive financial support that enhances long-term relationships with customers. Over time, the division has developed service models intended to take advantage of synergies arising from the interaction of account and specialized support executives responsible for ensuring comprehensive customer service. These models have enabled the division to strengthen customer relationships and product offerings.

In 2012 the division continued strengthening its presence in commercial credits, with a 14.8% annual increase in related balances, while promoting alternative funding sources for its customers, such as leasing contracts that recorded a 13.5% annual rise in outstanding loans. In addition, we continued to widen the service offering by strengthening our leasing and factoring products.

Our leasing segment is part of the Large Companies and Real Estate Division. Similarly, our factoring subsidiary, Banchile Factoring S.A., mainly provides its services through the Large Companies and Real Estate Division.

Treasury and Money Markets Operations

Our Treasury and Money Market Operations business segment provides a wide range of financial services to our customers, including currency intermediation, forward contracts, interest rate swaps, transactions under repurchase agreements and investment products based on bonds, mortgage finance bonds and deposits.

In addition, our Treasury and Money Market Operations business segment is focused on managing our currency, interest rate and maturity gaps, ensuring adequate liquidity levels, managing our investment portfolio and

Table of Contents

performing the intermediation of fixed-income instruments, currencies and derivatives. Interest rate gap management is aimed at generating an adequate funding structure, prioritizing our capitalization and asset and liability cost structure and funding source diversification.

The Treasury and Money Market Operations business segment is also responsible for (i) the issuance of short- and long-term senior bonds, as well as long-term subordinated bonds, (ii) monitoring compliance with regulatory deposit limits, technical reserves and maturity and rate matches, (iii) monitoring our adherence to the security margins defined by regulatory limits, and risk limits for interest rate, currency and investment gaps. This segment continually monitors the Bank s funding costs by benchmarking with the rest of the local financial system.

During 2012, our Treasury and Money Market Operations business segment continued to develop a funding diversification strategy by conducting important transactions. For example, during 2012 the Bank carried out international bond issuances in Peru (U.S.$29 million) and Hong Kong (U.S.$164 million) and established a commercial paper program in the U.S. market of U.S.$1,000 million. The latter is a rollover short-term funding source that we used during 2012. As of December 31, 2012 the balance for this liability amounted to Ch$197,340 million (approximately U.S.$412 million).

The funding functions carried out by our Treasury division are complemented by our international area, namely International Financial Institutions (IFI), which manages relations with correspondent banks worldwide, facilitating international payments and obtaining foreign currency financing for us. As of December 31, 2012, we have established a network of approximately 600 foreign banks, among which we maintained credit relationships with approximately 180 correspondent banks, from which we maintained 37 account relationships. IFI played an important role in structuring international transactions aimed at diversifying our funding.

Regarding the management of our securities portfolio, as of December 31, 2012 it amounted to Ch$1,431,998 million and was composed of available-for-sale securities that totaled Ch$1,272,316 million and securities held for trading that amounted to Ch$159,682 million. As for the type of instruments included in our securities portfolio, as of December 31, 2012, 59.3% consisted of securities issued by local financial institutions, 22.6% consisted of securities issued by the Central Bank and the Chilean Government, 11.9% consisted of securities issued by Chilean corporate issuers and other securities and 6.2% consisted of securities from foreign issuers. Our investment strategy is designed to supplement our expected profitability, risks and economic variable projections while adhering to the regulatory guidelines and internal limits defined by our finance committee.

Operations through Subsidiaries

We have made several strategic long-term investments in financial services companies that are engaged in activities complementary to our commercial banking activities. In making these investments our goal is to develop a comprehensive financial group capable of meeting the diverse financial needs of our current and potential clients by offering traditional banking products and specialized financial services through our different subsidiaries.

The following table sets forth information with respect to our financial services subsidiaries in accordance with our internal reporting policies as of December 31, 2012:

	As of or for the year ended December 31, 2012		
BANK S INTERNAL REPORTING POLICIES:	**Assets**	**Equity**	**Net Income**
		(in millions of Ch$)	
Banchile Trade Services Limited (Hong Kong)	Ch$ 756	Ch$ 741	Ch$ 43
Banchile Administradora General de Fondos S.A.	60,743	58,014	13,133
Banchile Asesoría Financiera S.A.	4,595	3,753	2,011
Banchile Corredores de Seguros Ltda	11,389	9,566	2,865
Banchile Corredores de Bolsa S.A.	547,182	84,619	10,590
Banchile Factoring S.A.	488,525	55,871	9,886
Banchile Securitizadora S.A.	516	422	27
Socofin S.A.	7,555	702	(243)
Promarket S.A.	2,489	1,266	432
Total	**Ch$ 1,123,750**	**Ch$ 214,954**	**Ch$ 38,744**

43

The following table sets forth information with respect to our ownership interest in our financial services subsidiaries as of December 31, 2012:

	Ownership Interest		
	Direct (%)	Indirect (%)	Total (%)
Banchile Trade Services Limited (Hong Kong)	100.00		100.00
Banchile Administradora General de Fondos S.A.	99.98	0.02	100.00
Banchile Asesoría Financiera S.A.	99.96		99.96
Banchile Corredores de Seguros Ltda.	99.83	0.17	100.00
Banchile Corredores de Bolsa S.A.	99.70	0.30	100.00
Banchile Factoring S.A.	99.75	0.25	100.00
Banchile Securitizadora S.A.	99.00	1.00	100.00
Socofin S.A.	99.00	1.00	100.00
Promarket S.A.	99.00	1.00	100.00

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

Securities Brokerage Services

We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores de Bolsa S.A. is registered as a securities broker with the *Superintendencia de Valores y Seguros de Chile* (the Chilean Superintendency of Securities and Insurance), the regulator of Chilean publicly listed companies, and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores de Bolsa S.A. has provided stock brokerage services, fixed-income investments and foreign exchange products to individuals and companies through our branch network. During the year ended December 31, 2012, Banchile Corredores de Bolsa S.A. recorded an aggregate stock trading turnover on the Santiago Stock Exchange, the Chilean Electronic Stock Exchange and the Valparaíso Stock Exchange that amounted to approximately Ch$4,927,233 million. As of December 31, 2012, Banchile Corredores de Bolsa S.A. had equity of Ch$84,619 million and, for the year ended December 31, 2012, recorded net income of Ch$10,590 million, which represented 2.3% of our consolidated net income for that period.

In early 2009, Citibank Agencia de Valores S.A. merged with and into Banchile Corredores de Bolsa S.A.

Mutual and Investment Fund Management

Since 1980, we have provided mutual fund management services through Banchile Administradora General de Fondos S.A. (formerly Banchile Administradora de Fondos Mutuos S.A.). As of December 31, 2012, according to data prepared by the Chilean Superintendency of Securities and Insurance, Banchile Administradora General de Fondos S.A. was the largest mutual fund manager in Chile, managing approximately 23.2% of all Chilean mutual funds assets. As of December 31, 2012, Banchile Administradora General de Fondos S.A. operated 81 mutual funds and had Ch$4,230,281 million in assets under management owned by approximately 345,889 corporate and individual investors. Also, as of December 31, 2012, Banchile Administradora General de Fondos S.A. operated eight investment funds: Chile Small Cap, Banchile Inmobiliario IV, Banchile Inmobiliario V, Banchile Inmobiliario VI, Latam Small Mid-Cap, Plusvalia Eficiente, Rentas Inmobiliarias I and Chile Blend, managing Ch$203,813 million in net assets on behalf of 198 participants.

Table of Contents

The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos S.A. as of December 31, 2012:

Name of Fund	Type of Fund	Net Asset Value As of December 31, 2012 (in millions of Ch$)
2nd Best Chile Eeuu	Fixed income (medium/long term)	Ch$ 2,236
Ahorro	Fixed income (medium/long term)	60,264
Ahorro Estable Ii	Fixed income (medium/long term)	10,758
Ahorro Estable Iii	Fixed income (medium/long term)	4,882
Ahorro Plus I	Fixed income (medium/long term)	782
Alianza	Fixed income (medium/long term)	76,028
Andes Acciones	Debt/Equity	1,193
Asia Fund	Debt/Equity	3,912
Asiatico Accionario	Equity	14,353
Balance I	Debt/Equity	16,689
Banca Americana Vt	Fixed income (medium/long term)	12,012
Banchile-Acciones	Equity	62,028
Bonos Soberanos	Fixed income (medium/long term)	9,080
Booster Australia	Fixed income (medium/long term)	1,907
Booster Balanced	Fixed income (medium/long term)	1,325
Booster Chile	Fixed income (medium/long term)	5,790
Booster Smal Cap Usa	Fixed income (medium/long term)	2,102
Bric Accionario	Debt/Equity	835
Capital Efectivo	Fixed income (short term)	87,829
Capital Financiero	Fixed income (short term)	93,475
Capitalisa-Acc.	Equity	5,509
Cash	Fixed income (short term)	358,279
Ch Bursatil Garant	Fixed income (medium/long term)	2,681
Chile 18 Q	Equity	9,914
Chile Accionario	Equity	29,097
Cobertura	Fixed income (medium/long term)	1,178
Corporate Dollar	Fixed income (short term)	333,664
Corporativo	Fixed income (short term)	274,967
Crecimiento	Fixed income (short/medium term)	86,296
Decisión Estratégica	Debt/Equity	1,243
Depósito Plus G	Fixed income (medium/long term)	14,682
Deposito Xxi	Fixed income (medium/long term)	92,487
Deuda Dolar	Fixed income (medium/long term)	8,633
Deuda Estatal	Fixed income (medium/long term)	48,737
Deuda Nacional	Fixed income (medium/long term)	11,488
Disponible	Fixed income (short term)	46,608
Dollar Investment G.	Fixed income (medium/long term)	25,476
Emerging Fund	Debt/Equity	20,728
Emerging Market	Debt/Equity	17,873
Estrategia Commoditi	Fixed income (medium/long term)	6,274
Estrategico	Fixed income (medium/long term)	288,689
Euro Money Market	Fixed income (short term)	19,652
Europa Accionario	Fixed income (medium/long term)	2,112
Europa Desarrollada	Debt/Equity	1,683
Flexible	Fixed income (short term)	56,040
Global Dollar	Debt/Equity	1,672
Global Mid Cap	Debt/Equity	3,280
Horizonte	Fixed income (medium/long term)	122,883
Inversion	Debt/Equity	19,354

Inversion Brasil	Debt/Equity	7,705
Inversión Chile 30	Debt/Equity	930
Inversion China	Debt/Equity	7,774
Inversion Dolar 30	Debt/Equity	1,516
Inversion Usa	Debt/Equity	8,061
Inversionista I	Equity	16,139
Latam Mid Cap	Debt/Equity	5,616
Latin America Fund	Debt/Equity	33,225
Latina Accionario	Debt/Equity	11,643
Liquidez 2000	Fixed income (short term)	475,907
Liquidez Full	Fixed income (short term)	451,386
Mid Cap	Equity	47,695
Muralla China Garant	Fixed income (medium/long term)	17,821
Oportunidades Sector	Debt/Equity	5,278
Patrimonial	Fixed income (short term)	291,388
Performance	Fixed income (short/medium term)	9,623
Plus Ii Garant	Fixed income (medium/long term)	12,542
Renta Futura	Fixed income (medium/long term)	258,566

Table of Contents

Name of Fund	Type of Fund	Net Asset Value As of December 31, 2012 (in millions of Ch$)
Retorno Dolar	Fixed income (medium/long term)	31,913
Retorno L.P. Uf	Fixed income (medium/long term)	35,749
Twin Win Europa 103	Fixed income (medium/long term)	3,464
Twin Win Usa	Fixed income (medium/long term)	2,098
U.S. Dollar Fund	Debt/Equity	6,347
Us Mid Cap	Debt/Equity	19,653
Utilidades	Fixed income (short/medium term)	51,160
Viejo Continente Acc	Debt/Equity	796
Vision Dinamica A	Debt/Equity	9,422
Vision Dinamica Acc.	Debt/Equity	4,130
Vision Dinamica B	Debt/Equity	4,355
Vision Dinamica C	Debt/Equity	7,839
Vision Dinamica D	Debt/Equity	2,485
Vision Dinamica E	Debt/Equity	9,396
Total		**Ch$ 4,230,281**

As of December 31, 2012, Banchile Administradora General de Fondos S.A. recorded equity of Ch$58,014 million and, for the year ended December 31, 2012, net income of Ch$13,133 million, which represented 2.8% of our 2012 consolidated net income.

Factoring Services

We provide factoring services to our customers through Banchile Factoring S.A. Through this service, we purchase our customers outstanding debt portfolios, such as bills, notes, promissory notes or contracts, advancing cash and collecting on the related instruments. For the year ended December 31, 2012, Banchile Factoring S.A. had net income of Ch$9,887 million, which represented 2.1% of our 2012 consolidated net income. As of December 31, 2012, this subsidiary had equity of Ch$55,871 million and a 20.7% market share in Chile s factoring industry, according to information provided by the Chilean Factoring Association.

Financial Advisory Services

We provide financial advisory and other investment banking services to our customers through Banchile Asesoría Financiera S.A. The services offered by Banchile Asesoría Financiera S.A. are primarily targeted to our corporate customers and include advisory services concerning mergers and acquisitions, restructuring, project finance and strategic alliances. As of December 31, 2012, Banchile Asesoría Financiera S.A. had equity of Ch$3,753 million and, for the year ended December 31, 2012, net income of Ch$2,011 million, which represented 0.4% of our 2012 consolidated net income.

Insurance Brokerage

We provide insurance brokerage services to our customers through Banchile Corredores de Seguros Limitada. In 2000, we began to offer life insurance policies associated with consumer loans and non-credit related insurance to our individual customers and the general public. As of December 31, 2012, Banchile Corredores de Seguros Limitada had equity of Ch$9,566 million and, for the year ended December 31, 2012 net income of Ch$2,865 million, which represented 0.6% of our 2012 consolidated net income. According to the Chilean Insurance Companies Association, during 2011 (the latest year for which information is available), Banchile Corredores de Seguros Limitada had a 5.0% market share in the total amount of life and casualty insurance policies (in Chilean pesos) sold by insurance brokerage companies in Chile, excluding life annuities.

Securitization Services

We offer investment products to meet the needs of institutional investors, such as private pension funds and insurance companies, through Banchile Securitizadora S.A. This subsidiary securitizes financial assets, and issues debt instruments with credit ratings that can be traded in the Chilean marketplace, backed by a bundle of revenue-producing assets of the client company. As of December 31, 2012, Banchile Securitizadora S.A. had equity of Ch$422 million and, for the year ended December 31, 2012, it reported net income of Ch$27 million. Also as of

December 31, 2012, Banchile Securitizadora S.A. had a 16.5% market share in the total volume of assets securitized in Chile. This market share refers to the percentage of existing stock of securitized assets as of the mentioned date.

Table of Contents

Credits pre-evaluation services

Promarket S.A. provides credit pre-evaluation services to the Bank and its subsidiaries, including researching potential customers. As of December 31, 2012, Promarket S.A. had equity of Ch$1,266 million and, for the year ended December 31, 2012, net income of Ch$432 million.

Collection Services

We provide judicial and extra-judicial loan collection services on our behalf and on behalf of third parties through our subsidiary Socofin S.A. As of December 31, 2012, Socofin S.A. had equity of Ch$702 million and, for the year ended December 31, 2012, net loss of Ch$243 million.

Trade Services

In November 2004, we began offering direct trade services to our customers through Banchile Trade Services Limited, which acts as our trade finance entity in markets such as China, Hong Kong, Taiwan and South Korea. As of December 31, 2012, Banchile Trade Services Limited had equity of Ch$741 million and, for the year ended December 31, 2012, net income of Ch$43 million.

Distribution Channels and Electronic Banking

Our distribution network provides integrated financial services and products to our customers through a wide range of channels. The network includes ATMs, branches, on-line banking and phone-banking devices. As of December 31, 2012, we had 1,915 ATMs (that form part of Redbanc s 6,765 ATMs system) which allowed our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2012, we had a network of 434 retail branches throughout Chile. Our branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, cash withdrawals, offer the full range of our retail banking products, such as consumer loans, credit cards, mortgage loans and current accounts, and provide information to current and potential customers.

We offer electronic banking services to our customers 24 hours a day through our internet website, www.bancochile.cl, which has tailored homepages for the different markets we serve. Our corporate homepage offers a broad range of services, including the payment of bills, electronic fund transfers, non-charge orders, as well as a wide variety of account inquiries. These services include our office banking service, *Banconexion Web*, which enables our corporate customers to perform all of their banking transactions from their offices. Our homepage also offers products with exclusive benefits provided by our customer loyalty marketing programs, which enhance our relationships with customers. We also have a homepage designed for our investor customers, through which they can trade stocks, take deposits and open savings accounts. Our foreign trade customers can rely on our international business homepage, www.bancochile.com, which enables them to inquire about the status of their foreign trade transactions and perform transactions, such as opening letters of credit, recording import collection and hedging on instructions and letters of credit. On an average monthly basis, during 2012 approximately 574,000 individual and corporate customers performed nearly 24.6 million transactions per month on our website, of which approximately 5.5 million were monetary transactions.

In addition, we provide our customers with access to a 24-hour phone-banking call center through which they can access account information, transfer funds and make certain payments. This service, through which we receive approximately 535,000 calls per month on average, has enabled us to develop customer loyalty campaigns, sell financial products and services, answer specialized inquiries about our remote services and receive and resolve complaints by customers and non-customers.

Involvement with the Transantiago Plan

Since June 2005, we have been a shareholder in *Administrador Financiero del Transantiago* (AFT), the company responsible for the financial management of the overhaul of Santiago s public transit system (the

Table of Contents

Transantiago Plan). Other majority shareholders of the company include three other major Chilean banks, a financial services company and a technology services company. We own 20% of AFT s capital stock, which represented an original capitalization of approximately U.S.$13.4 million as of June 8, 2005.

The Transantiago Plan has faced operational deficits that are being funded by means of permanent and temporary fiscal subsidies in accordance with the provisions of Law 20,378, enacted in September 2009.

In 2007, as shareholders of AFT, we made extraordinary contributions for a total amount of U.S.$4.1 million with the purpose of financing AFT s expenses, which were capitalized as of December 31, 2007. Between January and April 2008, we made additional funds available to AFT in the amount of U.S.$358,000 to pay AFT s expenses arising from the Transantiago Plan. We have made no additional funds available after April 2008. However, if we are required to incur additional payments, we do not expect that any such payments will materially affect our business.

On December 2012, AFT and the Chilean Ministry of Transports and Telecommunications entered into a new agreement that limits the services to be provided by AFT to the financial management of the Transantiago System s resources. This new agreement significantly reduces the AFT s incomes and operational expenses, while materially reducing the AFT s risk. The new agreement is subject to approval by the General Comptroller of Chile (*Contraloría General de la República de Chile*), which is currently pending.

Competition

Overview

The Chilean market for banking and other financial services is highly and increasingly competitive and consists of a number of different market sectors. The most important sector is commercial banking that as of December 31, 2012 consisted of 23 privately-owned banks and one government-owned bank, Banco del Estado. As of December 31, 2012, the four largest Chilean banks accounted for 65.3% of all outstanding loans granted by Chilean financial institutions (excluding subsidiaries abroad): Banco Santander Chile (19.1%), Banco de Chile (19.0%), Banco del Estado (14.1%) and Banco de Crédito e Inversiones (13.2%).

We face significant and increasing competition in all market segments in which we operate. As a commercial bank that offers a range of services to all types of businesses and individual customers, we face a variety of competitors, ranging from other large, privately-owned commercial banks to more specialized entities, such as niche banks. We also increasingly face competition, from non-banking companies like large department stores, private compensation funds, and saving and credit cooperatives with respect to some of our credit products, such as credit cards and consumer loans. In addition, we face competition from other types of competitors, such as leasing, factoring and automobile financing companies (especially in credit products), as well as mutual funds, pension funds and insurance companies, within the market for savings products and mortgage loans. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business is experiencing fast growth, but we cannot assure you that this trend will continue in the future

Within the banking industry, our primary competitors are the principal commercial banks in Chile, namely, Banco Santander Chile, Banco de Crédito e Inversiones, Banco Bilbao Vizcaya Argentaria Chile (BBVA), and Corpbanca. Nevertheless, we also face competition from Banco del Estado, a government-owned bank, which has a larger customer base than we do. Banco del Estado, which operates under the same regulatory regime as Chilean privately-owned banks, was the third largest bank in Chile as of December 31, 2012, with outstanding total loans of Ch$13,894,809 million, representing a 14.1% market share, according to data published by the Superintendency of Banks.

In the wholesale market, we believe our strongest competitors are also Banco Santander Chile, Banco de Crédito e Inversiones, Corpbanca and Banco Bilbao Vizcaya Argentaria Chile (BBVA). Similarly, we believe these banks are our most significant competitors in the small and medium-sized companies business segment.

In the retail market, we compete with other privately-owned Chilean banks, as well as with Banco del Estado, which has a large customer base of individuals. Among privately-owned banks, we believe our strongest competitors in this market are Banco Santander Chile and Banco de Crédito e Inversiones, as these banks have developed diversified business strategies focused on both small and medium-sized companies and lower to middle income segments of the Chilean population. In addition, we believe our strongest competitors in the high-income individual segment are Banco Santander Chile and Banco Itaú Chile, as these banks rely on specialized business units that provide wealth management and traditional banking services, as we do as well. We also compete with companies that offer non-banking specialized financial services in the high-income individuals segment such as Larrain Vial and Celfin Capital (owned by BTG Pactual, a financial services company headquartered in Brazil), whose core businesses are stock brokerage, financial advisory and wealth management services.

The Chilean banking industry has experienced increased levels of competition in recent years from domestic as well as foreign banks, which has triggered a consolidation wave within the industry. Consequently, banks strategies have been increasingly focused on reducing costs and improving efficiency standards in order to compete effectively with the larger banks. Although we are making our best efforts in order to operate within this competitive environment, we acknowledge that our income may decrease as a result of increasing competition.

We expect these trends of increased competition and consolidation to continue, particularly in connection with the formation of new large financial groups and the creation of new niche banks. Although we believe that we are currently large enough to compete effectively in all of our target markets, any further consolidation in the Chilean financial services industry may adversely affect our competitive position. We are working on developing and enhancing our competitive strengths to ensure our sustainability.

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

In recent years, the Chilean financial system has witnessed a new phenomenon: the rise of non-traditional banking competitors, such as large department stores. These players have become increasingly significant in the consumer-lending sector, as they are permitted to issue financial products such as credit cards. Currently, there are three consumer-oriented banks affiliated with Chile s largest department stores: Banco Falabella, Banco Ripley and Banco Paris. Although these banks had a combined market share (excluding subsidiaries abroad) of only 1.5% as of December 31, 2012, according to the Superintendency of Banks, the presence of these banks is likely to make consumer banking more competitive over the next years.

In addition, during 2012 Corpbanca, fourth-ranked among Chilean privately-owned banks in terms of total loans as of December 31, 2011, acquired a former Santander Group s subsidiary in Colombia and consolidated its balance sheet and results of operations beginning May 31, 2012. As of December 31, 2012 loans associated with this subsidiary amounted to Ch$1,883,434 million and represented 1.9% of the industry total loans.

Below there is a set of tables and figures for the years ended December 31, 2010, 2011 and 2012 that shows our position within the Chilean financial industry. The market information is set forth under Chilean GAAP as published by the Superintendency of Banks and unless otherwise indicated excludes data related to operations of subsidiaries abroad.

Table of Contents

The following table sets forth certain statistical information on the Chilean financial system as of December 31, 2012, according to information published by the Superintendency of Banks under Chilean GAAP:

	As of December 31, 2012 (in millions of Ch$, except percentages)							
	Assets		Loans(1)(2)		Deposits(2)		Equity(3)	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
CHILEAN GAAP:	(in millions of Ch$, except percentages)							
Private sector banks	Ch$ 117,372,056	83.5%	Ch$ 84,984,942	85.9%	Ch$ 68,980,841	81.2%	Ch$ 10,110,009	89.8%
Banco del Estado	23,226,824	16.5	13,894,809	14.1	15,937,708	18.8	1,147,666	10.2
Total banking system	**Ch$ 140,598,880**	**100.0%**	**Ch$ 98,879,751**	**100.0%**	**Ch$ 84,918,549**	**100.0%**	**Ch$ 11,257,675**	**100.0%**

Source: Superintendency of Banks

(1) Loans to customers, net of interbank loans.
(2) Excludes operations of subsidiaries abroad.
(3) For purposes of this table, equity includes capital and reserves, net income for the period and provisions for minimum dividends.

Loans

We had total loans of Ch$18,761,765 million as of December 31, 2012, according to information published by the Superintendency of Banks under Chilean GAAP. The following table sets forth our market share and the market share of our principal privately-owned competitors in terms of total loans, as of the dates indicated, according to information published by the Superintendency of Banks under Chilean GAAP:

CHILEAN GAAP:	Total Loans(1)(2) As of December 31,		
	2010	2011	2012
Banco Santander Chile	20.9%	19.7%	19.1%
Banco de Chile	19.2	19.8	19.0
Banco de Crédito e Inversiones	12.7	12.9	13.2
Banco Corpbanca	7.3	7.7	8.4
BBVA Bilbao Vizcaya	7.3	7.0	7.1
Accumulated market share	**67.4%**	**67.1%**	**66.8%**

Source: Superintendency of Banks

(1) Provisions for loan losses not deducted.
(2) Excludes operations of subsidiaries abroad.

Credit Quality

The following table sets forth the ratio of allowances to total loans of the largest private banks in Chile and that of the Chilean financial system as a whole (including such banks) as of December 31, 2010, 2011 and 2012, according to information published by the Superintendency of Banks under Chilean GAAP:

CHILEAN GAAP:	Allowances to Total Loans[1] As of December 31, 2010	2011	2012
Banco Santander Chile	2.82%	3.02%	2.91%
Banco de Crédito e Inversiones	2.52	2.44	2.29
Banco de Chile	2.48	2.21	2.28
BBVA Bilbao Vizcaya	1.75	2.02	1.80
Banco Corpbanca	1.95	1.54	1.27
Financial system	**2.52%**	**2.36%**	**2.27%**

Source: Superintendency of Banks

(1) Excludes operations of subsidiaries abroad.

Table of Contents

The following table sets forth the ratio of total past-due loans to total loans for the largest private banks in Chile as of December 31, 2010, 2011 and 2012 on a consolidated basis, according to information published by the Superintendency of Banks under Chilean GAAP:

CHILEAN GAAP:	Total Past-Due Loans to Total Loans[1] As of December 31, 2010	2011	2012
Banco de Chile	1.20%	1.03%	0.97%
BBVA Bilbao Vizcaya	2.18	1.90	1.22
Banco Corpbanca	2.04	1.58	1.25
Banco de Crédito e Inversiones	2.16	2.16	1.91
Banco Santander Chile	2.66	2.95	3.17
Financial system	**2.70%**	**2.35%**	**2.17%**

Source: Chilean Superintendency of Banks

(1) Excludes operations of subsidiaries abroad.

Deposits

We had total deposits (including demand deposits and time deposits) of Ch$15,083,921 million as of December 31, 2012, according to information published by the Superintendency of Banks under Chilean GAAP. The following table sets forth the market shares in terms of total deposits for private banks as of December 31, 2010, 2011 and 2012 on a consolidated basis, according to information published by the Superintendency of Banks under Chilean GAAP:

CHILEAN GAAP:	Total Deposits[1] As of December 31, 2010	2011	2012
Banco de Chile	18.7%	18.5%	17.8%
Banco Santander Chile	17.7	17.4	16.6
Banco de Crédito e Inversiones	12.8	13.0	12.8
Banco Corpbanca	6.6	7.2	8.2
BBVA Bilbao Vizcaya	6.4	6.5	6.3
Total market share	**62.2%**	**62.6%**	**61.7%**

Source: Superintendency of Banks

(1) Excludes operations of subsidiaries abroad.

Capital and Reserves

The following table sets forth the level of capital and reserves for the largest private banks in Chile as of December 31, 2010, 2011 and 2012 according to information published by the Superintendency of Banks under Chilean GAAP:

CHILEAN GAAP:	Capital and Reserves(1) As of December 31, 2010	2011	2012
Banco Santander Chile	Ch$ 1,529,599	Ch$ 1,730,464	Ch$ 1,898,348
Banco de Chile	1,268,101	1,569,871	1,841,968
Banco de Crédito e Inversiones	883,714	1,039,161	1,230,078
Banco Corpbanca	475,839	643,218	936,275
BBVA Bilbao Vizcaya	Ch$ 464,814	Ch$ 490,608	Ch$ 592,336

Source: Superintendency of Banks

(1) Includes operations of subsidiaries abroad.

Table of Contents

Return on Capital and Reserves

The following table sets forth our return on capital and reserves and the returns on capital and reserves of our principal privately owned competitors and the Chilean banking industry as a whole, in each case as of December 31, 2010, 2011 and 2012, according to information published by the Superintendency of Banks under Chilean GAAP:

CHILEAN GAAP:	Return on Capital and Reserves(1)(2) Year Ended December 31, 2010	2011	2012
Banco de Chile	29.9%	27.3%	25.3%
Banco Santander Chile	31.2	25.1	20.4
Banco de Crédito e Inversiones	25.1	25.1	22.1
BBVA Bilbao Vizcaya	10.4	15.2	11.0
Banco Corpbanca	25.0	19.1	10.2
Financial system average	**16.7%**	**15.7%**	**13.2%**

Source: Superintendency of Banks

(1) Corresponds to net income attributable to equity holders divided by the year end balance of Capital and Reserves.
(2) Excludes operations of subsidiaries abroad.

Efficiency

The following table sets forth the efficiency ratios of the largest private Chilean banks as of December 31, 2010, 2011 and 2012, according to information published by the Superintendency of Banks under Chilean GAAP:

CHILEAN GAAP:	Efficiency Ratio(1)(2) As of December 31, 2010	2011	2012
Banco Santander Chile	40.1%	41.4%	42.8%
Banco de Chile	50.3	50.2	47.2
Banco de Crédito e Inversiones	50.5	47.2	49.6
Banco Corpbanca	42.3	44.6	56.7
BBVA Bilbao Vizcaya	62.9	55.7	59.5
Financial system average	**51.5%**	**50.0%**	**51.2%**

Source: Superintendency of Banks

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

(2) Includes operations of subsidiaries abroad.

Table of Contents

REGULATION AND SUPERVISION

General

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

The Chilean banking system dates back to 1925 and has been characterized by periods of substantial regulation and government intervention, as well as periods of deregulation. The most recent period of deregulation commenced in 1975 and culminated in the adoption of a series of amendments to the General Banking Law. In 2004, amendments to the General Banking Law granted additional powers to banks, including general underwriting powers for new issuances of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory, mutual fund services, investment fund management, factoring, securitization products and financial leasing services. Prior to 2006, banks had the option of distributing less than 30% of their earnings as dividends in any given year, subject to approval of the holders of at least two-thirds of the bank s common stock. In 2006, however, the General Banking Law was amended to eliminate this alternative.

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

The Central Bank

The Central Bank is an autonomous legal entity created under the framework of the Chilean Constitution. It is subject to its *Ley Orgánica Constitucional* (the Organic Constitutional Law) and the Chilean Constitution. To the extent not inconsistent with its Organic Constitutional Law or the Chilean Constitution, the Central Bank is also subject to general laws applicable to the private sector, but is not subject to the laws applicable to the public sector. The Central Bank is directed and administered by a board of directors composed of five members designated by the President of Chile, subject to Senate approval.

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

The Superintendency of Banks

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

The Superintendency of Banks examines all banks from time to time, usually at least once a year. Banks are required to submit unconsolidated unaudited financial statements to the Superintendency of Banks on a monthly

Table of Contents

basis and to publish their unaudited financial statements at least four times a year in a newspaper of national circulation. A bank s financial statements as of December 31 of each year must be audited and submitted to the Superintendency of Banks together with the opinion of its independent auditors. In addition, banks are required to provide extensive information regarding their operations at various periodic intervals to the Superintendency of Banks.

Any person wishing to acquire, directly or indirectly, 10% or more of the share capital of a bank must obtain prior approval from the Superintendency of Banks. Without such approval, the holder will not have the right to vote such shares. The Superintendency of Banks may only refuse to grant its approval based on specific grounds set forth in the General Banking Law.

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

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a bank s assets and liabilities by another bank;
- the control by the same person, or controlling group, of two or more banks; or
- a substantial increase in the share ownership of a bank by a controlling shareholder of that bank.

Such prior authorization is required only when the acquiring bank or the resulting group of banks would own a market share in loans determined by the Superintendency of Banks to be more than 15% of the Chilean banking system loans. The intended purchase, merger or expansion may be denied by the Superintendency of Banks, or, if the acquiring bank or resulting group would own a market share in loans determined to be more than 20% of the Chilean banking system loans, the purchase, merger, or expansion may be conditioned on one or more of the following:

- that the bank or banks maintain Regulatory Capital above 8% and up to 14% of their risk-weighted assets;
- that the technical reserve established in article 65 of the General Banking Law be applicable when deposits exceed 1.5 times the resulting bank s paid-in capital and reserves; or
- that the amount of interbanking loans be reduced to 20% of the resulting bank s Regulatory Capital.

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

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

- banks must disclose to the Superintendency of Banks the identity of any person owning, directly or indirectly, 5% or more of its shares;
- holders of ADSs must disclose to the depositary the identity of beneficial owners of ADSs registered under such holders names;

the depositary must disclose to the bank the identity of beneficial owners of ADSs which the depositary has registered, and the bank, in turn, must disclose to the Superintendency of Banks the identity of the beneficial owners of the ADSs representing 5% or more of such bank s shares; and

bank shareholders who individually hold 10% or more of a bank s capital stock and who are controlling shareholders must periodically inform the Superintendency of Banks of their financial condition.

Table of Contents

Limitations on Types of Activities

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

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

In June 2007, the Chilean Government passed Law No. 20,190, which amended various aspects of Chile s capital markets regulatory framework, such as the General Banking Law, Securities, Insurance, Venture Capital and Tax law. Law No. 20,190 is aimed at improving the access to financing for start-up companies and small businesses in order to strengthen confidence in the stock market and to stimulate the development of the financial market in general. The General Banking Law was amended to achieve these goals by, among other things, revising regulations concerning demand deposits, increasing certain credit limits, and redefining the calculations to determine the proper amount for a bank s reserves. In addition, the General Banking Law was amended to allow local banks to engage in derivatives such as options, swaps and forward contracts, thereby eliminating prior existing legal impediments to those practices.

As a consequence of Chile s accession to the Organization for Economic Co-operation and Development, the Chilean Congress introduced new corporate governance regulations in 2009. The Chilean Corporations Law and the Chilean Securities Markets Law were amended such that public companies with capital above 1,500,000 UF that have at least 12.5% of their voting shares owned by shareholders representing less than 10% of the voting shares are required to have at least one independent director in their board of directors. In order to assure the independence of this director, certain requirements were established to protect minority shareholders decisions. In addition, regulation was passed to expand the disclosure requirements of publicly-held companies and to hold members of boards of directors liable for not complying with such disclosure obligations.

Deposit Insurance

According to the General Banking Law, local or foreign currency denominated deposits at banks or financial companies are insured as described below.

The Chilean Government guarantees up to 100% of the principal amount of the following deposits:

- deposits in current accounts;
- deposits in savings accounts of demand deposits;
- other demand deposits; and
- deposits in savings accounts with unlimited withdrawals.

In addition, the Chilean Government guarantees up to 90% of the principal amount of time deposits held by individuals in the Chilean banking system. This guarantee covers obligations with a maximum value of UF 108 per person (Ch$2,466,801 or U.S.$5,144.85 as of December 31, 2012).

55

Table of Contents

Reserve Requirements

Deposits are subject to a reserve requirement of 9% for demand deposits and 3.6% for time deposits (with terms of less than one year). The Central Bank has statutory authority to increase these percentages to as much as 40% for demand deposits and as much as 20% for time deposits, to implement monetary policy.

In addition, Chilean banks must hold a certain amount of assets in cash or highly liquid instruments. This reserve requirement is equal to the amount by which the daily balance of deposits payable on demand, net of clearing, exceeds 2.5 times the amount of the bank s Regulatory Capital. Deposits payable on demand include the following:

- deposits in current accounts;
- other demand deposits or obligations payable on demand and incurred in the ordinary course of business;
- saving deposits that allow unconditional withdrawals that bear a stated maturity; and
- other deposits unconditionally payable immediately.

Chilean regulations also require that (i) gaps between assets and liabilities maturing within less than 30 days do not exceed a bank s Basic Capital and (ii) gaps between assets and liabilities maturing within less than 90 days do not exceed twice a bank s Basic Capital. Behavioral assumptions of assets and liabilities maturities are accepted if approved by the Superintendency of Banks.

Minimum Capital

Under the General Banking Law, a bank must have a minimum paid in capital and reserves of UF 800,000 (Ch$18,273 million or U.S.$38.1 million as of December 31, 2012). However, a bank may begin its operations with 50% of such amount, provided that it has a Regulatory Capital ratio (defined as Regulatory Capital as a percentage of risk weighted assets) of not less than 12%. When such a bank s paid in capital reaches UF 600,000 (Ch$13,704 million or U.S.$ 28.6 million as of December 31, 2012), the Regulatory Capital ratio requirement is reduced to 10%.

Capital Adequacy Requirements

According to the General Banking Law, each bank should have Regulatory Capital of at least 8% of its risk-weighted assets, net of required allowances. This percentage may be increased by the regulators according to what has been stated above.

Banks should also have a Basic Capital of at least 3% of their total assets, net of required allowances.

The terms Regulatory Capital and Basic Capital are defined under Presentation of Financial Information at the beginning of this annual report.

Market Risk Regulations

In September 2005, the Superintendency of Banks introduced new regulations for measuring market risks (e.g., price and liquidity risks). This entity introduced standardized methodologies based on Basel Market Risk Measurement models for measuring and reporting price risks. These methodologies allow local banks to determine interest rate, foreign exchange (FX) and options risks (for FX and interest rate transactions) taken in both their trading and accrual books. Additionally, this entity provided funding liquidity risk measurements standards which included the alternative to model the maturity tenor of some balance sheet items following behavioral assumptions.

The trading book is composed of portfolios of debt and equity instruments that have a liquid secondary market and therefore their valuation at market prices and the corresponding profit and losses impact is representative of market conditions. In addition, all derivative transactions and the FX mismatches are also part of the trading book. The accrual book comprises all of the asset and liability balance sheet items that are not part of the trading book.

Table of Contents

The regulation provides that the price risk of the trading book plus 8% of the risk-weighted assets (in light of our merger with Citibank Chile, the Superintendency of Banks has raised the applicable percentage for us from 8% to 10%) may not be higher than Regulatory Capital. As of December 31, 2012, the price risk of our trading book totaled Ch$40,864 million.

The following table shows our regulatory risk availability, computed as the difference between the total risk (10% of the risk-weighted assets plus the trading book risk) and our Regulatory Capital, as of December 31, 2012:

	As of December 31, 2012 (in millions of Ch$, except percentage)	
(a) 10% risk-weighted assets	Ch$	2,070,952
(b) Trading price risk		40,864
(c = a + b) Total risk		2,111,816
(d) Regulatory Capital		2,738,829
(e = d c) Risk Availability	Ch$	627,013
(f = c/d) Risk used as a Percentage of Regulatory Capital		77.11%

Interest rate risk generated by the accrual book is measured against a self-imposed limit equal to the lesser of 12-month rolling net revenues and our Basic Capital.

The guidelines for measuring liquidity risk are mainly focused on constructing an expected cash flow analysis for the following 30 and 90 days, broken down by currency. Net outflows may not exceed the amount of our Basic Capital for the following 30 days or two times that amount for the following 90 days. Subject to approval of the Superintendency of Banks, the cash flow analysis may include behavioral run-off assumptions for some specific liability balance sheets items (demand deposits, time deposits, etc.) and behavioral roll-over assumptions for some asset items of the consolidated statement of financial position data (loans, etc.).

In June 2006, the Superintendency of Banks introduced new regulations relating to (i) the valuation process of debt instruments and (ii) the measurement and reporting of credit risk generated by derivative transactions.

Prior to June 2006, the Superintendency of Banks allowed banks to classify debt instruments for accounting and business purposes as either Trading or Held-to-Maturity only. Starting in June 2006, a new alternative classification was added (Available-for-Sale). No changes to the classification system have occurred since June 2006.

Credit risk for derivative transactions, for regulatory purposes, must be measured and reported as:

Derivatives Credit risk = Current Mark-to-Market (if positive) + Credit Risk Factor (%) * Notional Amount

The Current Mark-to-Market (CMTM) of the transaction, if positive, reflects the amount of money owed by the customer today, e.g. corresponding to the amount the customer would pay us if the transaction were unwound today. As we are interested in measuring the maximum amount of money that the customer would owe us within the life of the transaction, the maximum potential future value of the transaction is added to the CMTM. This potential value is measured as the Credit Risk Factor multiplied by the Notional Amount. Hence, the Credit Risk Factor reflects the potential value that the transaction may take in favor of the bank (under some confidence level) within its remaining tenor. The regulator determines the Credit Risk Factor by considering market factors (three categories: interest rates, FX rates or equity prices) involved in the respective transactions and the remaining tenor. In addition, banks usually develop their own Credit Risk Factors models to assess credit risk not only under regulatory guidelines. Netting and credit mitigants, such as recouponing, early termination, margins, etc. have been accepted by the regulators in order to optimize the credit risk utilization.

Table of Contents

Lending Limits

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

- A bank may not extend to any entity or individual, directly or indirectly, unsecured credit in an amount that exceeds 10% of the bank s Regulatory Capital, or in an amount that exceeds 30% of its Regulatory Capital if the excess over 10% is secured by certain assets with a value equal to or higher than such excess.

- In the case of financing infrastructure projects built through the concession mechanism, the 10% ceiling for unsecured credits is raised to 15% if secured by a pledge over the concession, or if granted by two or more banks or financial companies which have executed a credit agreement with the builder or holder of the concession.

- A bank may not extend loans to another financial institution subject to the General Banking Law in an aggregate amount exceeding 30% of its Regulatory Capital.

- A bank may not extend to any individual or entity that is, directly or indirectly, related to the ownership or management of the bank, credit under more favorable terms with respect to repayment conditions, interest rates or collateral than those granted to third parties in similar transactions. The aggregate amount of such credits granted to related persons may not exceed 5% of the bank s Regulatory Capital. The 5% unsecured ceiling is raised to 25% of the bank s Regulatory Capital if the excess over 5% is secured by certain assets with a value equal to or higher than such excess. In any case, the aggregate amount of these credits granted by the bank may not exceed the bank s Regulatory Capital.

- A bank may not directly or indirectly grant a loan, the purpose of which is to allow an individual or entity to acquire shares of the lender bank.

- A bank may not lend, directly or indirectly, to a director or any other person who has the power to act on behalf of the bank.

- A bank may not grant loans to related parties (including holders of more than 1% of its shares) on more favorable terms than those generally offered to non-related parties. Loans granted to related parties are subject to the limitations described in the first bullet point above. The aggregate amount of loans to related parties may not exceed a bank s Regulatory Capital.

In addition, the General Banking Law limits the aggregate amount of loans that a bank may grant to its employees to 1.5% of its Regulatory Capital and provides that no individual employee may receive loans in excess of 10% of this 1.5% limit. Notwithstanding these limitations, a bank may grant to each of its employees a single residential mortgage loan for personal use during such employee s term of employment.

Classification of Banks

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

Solvency and Management

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

Category I:	This category is reserved for financial institutions that have been rated level A in terms of solvency and management.

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

A bank s solvency rating is determined by its Regulatory Capital (after deducting accumulated losses during the financial year) to risk-weighted assets ratio. This ratio is equal to or greater than 10% for level A banks, equal to or greater than 8% and less than 10% for level B banks and less than 8% for level C banks.

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

Obligations Denominated in Foreign Currencies

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

- a reserve requirement of 9% for demand deposits and 3.6% for time deposits. See Reserve Requirements ; and
- net foreign currency outflows may not exceed the amount of the Basic Capital for the following 30 days or two times that amount for the following 90 days.

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its board of directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the board of directors is unable to do so, it must call an extraordinary shareholders meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the 30-day period and in the manner agreed to at the meeting, or if the Superintendency of Banks does not approve the board of directors proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the board of directors and from making any further investments in any instrument other than instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations, or if a bank is under provisional administration of the Superintendency of Banks, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the board of directors of both banks, as well as by the Superintendency of Banks, but need not be submitted to the borrowing bank s shareholders for their approval. A creditor bank may not grant such interbank loans to an insolvent bank in an amount exceeding 25% of the creditor bank s Regulatory Capital. The board of directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, forgive debts or take other measures for the payment of the debts. If the board of directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of Regulatory Capital to risk-weighted assets to be no lower than 12%. If a bank fails to pay an obligation, it must notify the Superintendency of Banks, which shall determine if the bank is solvent.

Dissolution and Liquidation of Banks

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

Investments in Foreign Securities

Under current Chilean banking regulations, banks in Chile may grant loans to foreign individuals and entities and invest in certain foreign currency securities. Chilean banks may only invest in equity securities of foreign banks and certain other foreign companies which may be affiliates of the bank or which would support the bank s business if such companies were incorporated in Chile. Banks in Chile may also invest in debt securities traded in formal secondary markets. Such debt securities shall qualify as (i) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (ii) bonds issued by foreign companies. Such foreign currency securities must have a minimum rating as indicated in the table below and, if the investments in these securities and the loans referred to above exceed 70% of the Regulatory Capital of the bank, an allowance for 100% of the excess shall be established:

Rating Agency	Short Term	Long Term
Moody s	P2	Baa3
Standard and Poor s	A2	BBB
Fitch IBCA	F2	BBB

A Chilean bank may invest in securities having a minimum rating as follows, provided that if the total amount of these investments and the loans referred to above exceed 20% (or 30% in certain cases) of the Regulatory Capital of the bank, an allowance of 100% of the excess shall be established by the bank:

Rating Agency	Short Term	Long Term
Moody s	P2	Ba3
Standard and Poor s	A2	BB
Fitch IBCA	F2	BB

Table of Contents

However, a Chilean bank may invest in securities up to an additional amount of 70% of the bank s Regulatory Capital without having to establish an additional allowance, if such securities have a minimum rating of:

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

Subject to specific conditions, a bank may grant loans in U.S. dollars to subsidiaries or branches of Chilean companies located abroad, to companies listed on foreign stock exchanges located in countries with an international risk rating no less than BB- or its equivalent and, in general, to individuals and entities residing or domiciled abroad.

Procedures for the Management of Information of Interest to the Market

In order to ensure compliance with the provisions of the Chilean Securities Market Law and regulations, issued by the Chilean Superintendency of Securities and Insurance and the Superintendency of Banks, our board of directors approved, on January 29, 2010, the Manual for the Management of Information of Interest to the Market (the Manual).

The Manual s main objective is to provide timely disclosure of our policies and internal regulations in connection with the disclosure of information to the public and the systems that have been implemented by us.

In addition, these policies and internal regulations establish codes of conduct that our employees and other persons with access to certain information must comply with in order to protect information related to us.

The Manual is available to the general public on our web page at www.bancochile.cl.

Prevention of Money Laundering and the Financing of Terrorism

On March 6, 2006, the Superintendency of Banks issued regulations governing the requirements applicable to banks with respect to prevention of money laundering and terrorism financing. The regulations are aimed at incorporating international anti-money laundering (AML) and terrorism financing laws to the Chilean banking industry. Pursuant to these regulations, the Superintendency of Banks requires that banks implement an Anti-Money Laundering and Terrorism Financing system based mainly on the know your customer concept. Moreover, these policies and procedures must be approved by the board of directors of each bank and must take into account the volume and complexity of its operations and other related parties.

Based on these requirements, a Customer Identification Program (as part of the Anti-Money Laundering and Terrorism Financing system) is needed to enable a bank to reestablish the reasonable belief that it knows the true identity of its customers. In general, the program includes:

- properly identifying customers, including their background, source and amount of funds, country of origin and other risk factors;
- identifying what the Superintendency of Banks has defined as persons politically exposed (PEPs) both within Chile and abroad; and
- establishing procedures to open accounts and products, with different documentation requirements needed for different types of accounts and products.

The Anti-Money Laundering and Terrorism Financing system required by local regulations must also include the following components:

- AML policies and procedures aimed at preventing a bank from being used as an intermediary to carry out money laundering operations;

appointment of a compliance officer on a senior management level who is responsible for coordinating and monitoring day-to-day AML compliance;

establishment of an AML Committee for the purposes of planning and coordinating compliance with AML policies and procedures;

use of software tools to detect, monitor and report unusual operations related to transactions made by customers on different products;

implementation of personnel selection policies and a training program, in order to prevent money laundering;

establishment of a Code of Conduct in order to, among other things, guide employee behavior and prevent possible conflicts of interest; and

independent testing by the compliance department, which must be conducted by a bank s internal audit department.

Consumer-Oriented Regulation

On September 22, 2010, the Superintendency of Banks issued Circular No. 3,505 and Circular No. 3,506 with the purpose of promoting good practices and more transparency in the terms and conditions of financial services rendered by Chilean banks and financial institutions. On November 15, 2010, the Superintendency of Banks amended Circular No. 3,505 and Circular No. 3,506 by issuing Circular No. 3,513 and Circular No. 3,514. The most significant changes enacted by Circular No. 3,505 and Circular No. 3,506, as amended, are:

any interest rate modification in credit lines offered in connection with a current account may only follow a variable rate and be based on a rate published by the Central Bank or any other entity or publisher of financial information widely recognized, previously agreed upon with the customer;

any change to fees agreed with a customer may only be modified with the expressed or implied consent of such customer, thereby altering previous regulations regarding current accounts and credit cards;

no interest rate or fee may be conditioned on customers obtaining or maintaining other hired services or products;

no mortgage loan may be conditioned on the grant by the customer of a general security interest securing other financial services that the customer may have;

mortgage loans may not have as security a mortgage on property other than the property being financed by the mortgage loan;

no bank may claim an exemption from liability resulting from errors or flaws in the bank s processes and systems or defaults under insurance agreements; and

any contractual provision that conflicts with Circular No. 3,505 and Circular No. 3,506 is unenforceable by a bank against its counterparty, even if it predates these regulations.

On December 5, 2011, Law 20.555 was published in the *Diario Oficial*, amending the Chilean Consumer Protection Law. The most significant changes enacted by Law 20.555 were:

- new agreements entered into by banks and consumer must fully disclose the costs that the consumer assumes, as well as the periodicity, and the mechanisms to modify them. In addition, new agreements must fully disclose all terms, events of default, events of early termination, and automatic payments;

Table of Contents

- banks must inform consumers periodically as to the complete, detailed cost of the banking product, as well as of the cost of the services rendered. The information must include the cost that the consumer will assume if he terminates the agreement before the end of its term;

- before rendering a service or delivering a product, banks must give the consumer a quote, which must include costs, rates, and conditions;

- if the consumer so wishes banks must terminate the rendering of a service;

- banks must inform guarantors as to their rights and obligations before they assume the role of guarantor;

- irrevocable mandates and mandates in blank are prohibited by the law;

- when consumers execute standard form contracts, banks must explain, in writing, the main provisions of the agreement; and

- banks may only modify fees and costs of services and banking products if the mechanisms to modify them are based on objective and verifiable factors previously agreed to in the agreement. In addition, the cost of banking services and products may not be modified without the consent of the consumer.

This amendment became effective on March 5, 2012, however, with regards to the banking product agreements entered into before said date, the amendment does not affect the substantive rights acquired by the parties in those agreements.

On July 2012 the government enacted the regulations that implement Law 20,555, which address mortgage loans, consumer loans, credit cards, the Sernac Seal (Sello Sernac), and other financial products and services. The new regulations govern, among other matters, the form and content of communications that financial institutions must periodically provide to their customers. Likewise, the new regulations implement the so-called Summary Sheet (*Hoja Resumen*), which must precede the contracts that consumers enter into with financial institutions. The Summary Sheet is intended to provide a clear and understandable summary of the terms and conditions that govern financial products and services.

The Sernac Seal is a new concept introduced by Law 20,555 and consists of a non-mandatory certification granted by the Chilean government agency in charge of consumer protection (*Servicio Nacional del Consumidor,* Sernac), by which that agency confirms that the contracts used by a financial institution when providing products and services comply with the Consumer Protection Act. In this regard, the new regulation establishes the specific requirements for financial institutions to obtain such certification as well as the events that may lead to its termination. Among the requirements to obtain the certification, financial institutions must provide a consumer service and adopt a dispute resolution procedure as defined by Law 20,555 and its regulation.

All of these regulations are already implemented by Banco de Chile, except Sernac Seal, which is not mandatory. We do not expect these new regulations to have an adverse effect on our business, financial condition or results of operation.

ORGANIZATIONAL STRUCTURE

The following diagram presents our current corporate structure, including our subsidiaries and their respective direct ownership interests, as of December 31, 2012:

With the exception of Banchile Trade Services Limited, which was incorporated in Hong Kong, all of the subsidiaries presented above have their jurisdiction of incorporation in the Republic of Chile. See Business Overview Principal Business Activities Operations through Subsidiaries for more information on our subsidiaries.

PROPERTY, PLANTS AND EQUIPMENT

We are domiciled in Chile and own the building located at Paseo Ahumada 251, Santiago, Chile, that is approximately 77,500 square meters and serves as the headquarters for the Bank and its subsidiaries. In addition, we own three buildings located at Huerfanos 740, Agustinas 733 and Andrés Bello 2687, Santiago, Chile where the remainder of our executive offices are located. The total area we own in these buildings is equivalent to approximately 46,300 square meters.

As of December 31, 2012, we owned the properties on which 176 of our full-service branches and other points of sale are located (approximately 112,350 square meters of office space). Also, as of December 31, 2012, we had leased office space for 253 of our full-service branches with office space of approximately 71,600 square meters, while our remaining 5 branches and other points of sale were managed thorugh special partnership agreements between the property s owner and us. We also own properties throughout Chile for back office and administrative operations, as well as for storage of documents and other purposes. We believe that our facilities are adequate for our present needs and suitable for their intended purposes.

As of December 31, 2012, we also owned approximately 133,500 square meters in mainly recreational physical facilities in Chile, which we use to assist our employees in maintaining a healthy work and life balance and which we use for incentive and integration activities.

Table of Contents

SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report and Item 5. Operating and Financial Review and Prospects.

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

The average balances for interest-earning assets and interest-bearing liabilities, including interest and readjustments received and paid, were calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries. These average balances are presented in Chilean pesos (Ch$), in UF and in foreign currencies (principally the U.S. dollar). The UF is an inflation-indexed Chilean monetary unit of account with a value in Chilean pesos which is linked to, and which is adjusted daily to reflect changes in, the CPI of the Chilean National Institute of Statistics.

The nominal interest rate has been calculated by dividing the amount of interest and principal readjustment gain or loss during the period by the related average balance, both amounts expressed in constant pesos.

Foreign exchange gains or losses on foreign currency-denominated assets and liabilities have not been included in interest revenue or expense. Interest received on past due loans includes interest on such loans from the original maturity date. For our impaired portfolio and high risk loans, we apply a conservative approach of discontinuing accrual-basis recognition of interest revenue in the income statement and they are only recorded once received.

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

- the Central Bank, only the portion that is legally required to be held for liquidity purposes earns interest; and
- overseas banks earn interest on certain accounts in certain countries.

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

Table of Contents

The following tables set forth, by currency of denomination, average balances and, where applicable, interest amounts and nominal rate for our assets and liabilities under IFRS for the years ended December 31, 2010, 2011 and 2012:

	For the Year Ended December 31,								
	2010			2011			2012		
IFRS:	Average balance	Interest earned[1]	Average nominal rate	Average balance	Interest earned[1]	Average nominal rate	Average balance	Interest earned[1]	Average nominal rate
	(in millions of Ch$, except percentages)								
Assets									
Interest earning assets									
Deposits in Central Bank									
Ch$	Ch$ 189,029	Ch$ 274	0.14%	Ch$ 226,531	Ch$ 2,472	1.09%	Ch$ 279,627	Ch$ 1,569	0.56
UF									
Foreign currency	94,812	93	0.01	108,460	189	0.17	90,671	143	0.16
Total	**283,841**	**367**	**0.13**	**334,991**	**2,661**	**0.79**	**370,298**	**1,712**	**0.46**
Financial investments									
Ch$	608,266	19,777	3.25	630,882	32,721	5.19	703,721	51,727	7.35
UF	725,734	32,351	4.46	669,778	41,375	6.18	788,630	38,889	4.93
Foreign currency	185,808	2,609	1.40	261,591	7,673	2.93	255,998	3,229	1.26
Total	**1,519,808**	**54,737**	**3.60**	**1,562,251**	**81,769**	**5.23**	**1,748,349**	**93,845**	**5.37**
Loans in advance to banks									
Ch$	339,844	7,205	2.12	393,579	10,322	2.62	381,578	12,993	3.41
UF									
Foreign currency									
Total	**339,844**	**7,205**	**2.12**	**393,579**	**10,322**	**2.62**	**381,578**	**12,993**	**3.41**
Commercial loans									
Ch$	4,076,224	226,117	5.55	4,556,598	356,534	7.82	5,440,874	441,789	8.12
UF	3,231,121	218,776	6.77	3,723,781	307,310	8.25	3,983,001	285,516	7.17
Foreign currency	1,555,737	41,379	2.66	2,051,804	51,564	2.51	2,053,071	63,391	3.09
Total	**8,863,082**	**486,272**	**5.49**	**10,332,183**	**715,408**	**6.92**	**11,476,946**	**790,696**	**6.89**
Consumer loans									
Ch$	1,950,497	373,264	19.14	2,282,824	431,475	18.90	2,597,069	518,787	19.98

UF	46,903	3,685	7.86	52,090	4,503	8.64	44,836	4,120	9.19
Foreign currency							12,329		
Total	**1,997,400**	**376,949**	**18.87**	**2,334,914**	**435,978**	**18,67**	**2,654,234**	**522,907**	**19.70**
Residential mortgage loans									
Ch$									
UF	2,698,384	187,363	6.94	3,233,830	266,914	8.25	3,924,080	266,625	6.79
Foreign currency									
Total	**2,698,384**	**187,363**	**6.94**	**3,233,830**	**266,914**	**8.25**	**3,924,080**	**266,625**	**6.79**
Repurchase agreement									
Ch$	74,471	5,387	7.23	85,087	5,234	6.15	42,109	2,786	6.62
UF									
Foreign currency									
Total	**74,471**	**5,387**	**7.23**	**85,087**	**5,234**	**6.15**	**42,109**	**2,786**	**6.62**
Total interest earnings assets									
Ch$	7,238,331	632,024	8.73	8,175,501	838,758	10.26	9,444,978	1,029,651	10.90
UF	6,702,142	442,175	6.60	7,679,479	620,102	8.07	8,740,547	595,150	6.81
Foreign currency	1,836,357	44,081	2.40	2,421,855	59,426	2.45	2,412,069	66,763	2.77
Total	**Ch$ 15,776,830**	**Ch$ 1,118,280**	**7.09%**	**Ch$ 18,276,835**	**Ch$ 1,518,286**	**8.31%**	**Ch$ 20,597,594**	**Ch$ 1,691,564**	**8.21%**

(1) Interest earned includes interest accrued on trading securities.

Table of Contents

IFRS:	For the Year Ended December 31, 2010 Average balance	2010 Interest earned(1)	2010 Average nominal rate	2011 Average balance	2011 Interest earned(1)	2011 Average nominal rate	2012 Average balance	2012 Interest earned(1)	2012 Average nominal rate
	(in millions of Ch$, except percentages)								
Assets									
Non-interest earning assets									
Cash and due from banks									
Ch$	Ch$ 370,010	Ch$		Ch$ 445,938	Ch$		Ch$ 392,220	Ch$	
UF									
Foreign currency	194,562			247,685			238,241		
Total	**564,572**			**693,623**			**630,461**		
Transaction in the course of collection									
Ch$	263,263			305,521			266,559		
UF									
Foreign currency	152,592			227,171			184,865		
Total	**415,855**			**532,692**			**451,424**		
Allowances for loan losses									
Ch$	(341,313)			(389,578)			(352,064)		
UF									
Foreign currency									
Total	**(341,313)**			**(389,578)**			**(352,064)**		
Derivatives									
Ch$	481,674			414,682			329,513		
UF									
Foreign currency	44,635			41,616			50,698		
Total	**526,309**			**456,298**			**380,211**		
Investment in other companies									
Ch$	11,057			14,074			15,686		
UF									
Foreign currency	2			65			15		
Total	**11,059**			**14,139**			**15,701**		
Intangible assets									
Ch$	82,151			81,524			70,335		

UF						
Foreign currency						
Total	**82,151**		**81,524**		**70,335**	
Fixed assets						
Ch$	207,267		207,132		208,650	
UF						
Foreign currency						
Total	**207,267**		**207,132**		**208,650**	
Current tax assets						
Ch$	2,520		6,173		1,922	
UF						
Foreign currency						
Total	**2,520**		**6,173**		**1,922**	
Deferred tax assets						
Ch$	63,935		91,397		116,737	
UF						
Foreign currency						
Total	**63,935**		**91,397**		**116,737**	
Other assets						
Ch$	216,432		276,392		224,076	
UF	40,135		66,255		55,582	
Foreign currency	12,502		12,048		37,359	
Total	**269,069**		**354,695**		**317,017**	
Total non-interest earning assets						
Ch$	986,986		1,007,317		1,273,635	
UF	40,135		66,255		55,582	
Foreign currency	209,731		280,900		511,177	
Total	**1,236,852**		**1,354,472**		**1,840,394**	
Total assets						
Ch$	8,595,327	632,024	9,628,756	838,758	10,718,613	1,029,651
UF	6,742,277	442,175	7,745,734	620,102	8,796,129	595,150
Foreign currency	2,240,650	44,081	2,950,440	59,426	2,923,246	66,763
Total	**Ch$ 17,578,254**	**Ch$ 1,118,280**	**Ch$ 20,324,930**	**Ch$ 1,518,286**	**Ch$ 22,437,988**	**Ch 1,691,564**

(1) Interest earned includes interest accrued on trading securities.

Table of Contents

IFRS:	2010 Average balance	2010 Interest paid	2010 Average nominal rate	2011 Average balance	2011 Interest paid	2011 Average nominal rate	2012 Average balance	2012 Interest paid	2012 Average nominal rate
	For the Year Ended December 31, (in millions of Ch$, except percentages)								
Liabilities									
Interest bearing liabilities									
Savings accounts									
Ch$	Ch$ 4,172,738	Ch$ 86,691	2.08%	Ch$ 5,339,224	Ch$ 282,511	5.29%	Ch 6,212,712	Ch$ 356,191	5.73%
UF	2,087,299	89,517	4.29	2,246,187	140,879	6.27	2,349,836	134,947	5.74
Foreign currency	1,122,089	14,441	1.29	864,820	8,512	0.98	817,575	6,790	0.83
Total	**7,382,126**	**190,649**	**2.58**	**8,450,231**	**431,902**	**5.10**	**9,380,123**	**497,928**	**5.31**
Repurchase agreements									
Ch$	167,032	1,640	0.98	216,102	10,846	5.02	278,456	14,975	5.38
UF	14,665	367	2.50	16			3,036	10	0.33
Foreign currency	1,259	1	0.08	2,729	3	0.11	5,452	1	0.02
Total	**182,956**	**2,008**	**1.10**	**218,847**	**10,849**	**4.96**	**286,944**	**14,986**	**5.22**
Borrowings from financial institutions									
Ch$	82,313	2,138	2.60	200,026	6,072	3.04	35,705	3,050	8.54
UF	8,255	21	0.25	15,485	(1)		36		
Foreign currency	1,275,267	16,663	1.31	1,499,906	17,709	1.18	1,399,621	19,258	1.38
Total	**1,365,835**	**18,822**	**1.38**	**1,715,417**	**23,780**	**1.39**	**1,435,362**	**22,308**	**1.55**
Debt issued									
Ch$	78,957	805	1.02	54,019	1,612	2.98	36,866	1,048	2.84
UF	1,463,769	104,512	7.14	1,827,406	148,090	8.10	2,516,157	160,071	6.36
Foreign currency	117,714	4,306	3.66	113,254	4,194	3.70	285,147	9,103	3.19
Total	**1,660,440**	**109,623**	**6.60**	**1,994,679**	**153,896**	**7.72**	**2,838,170**	**170,222**	**6.00**
Other financial obligations									
Ch$	60,144	1,146	1.91	82,470	1,325	1.61	95,187	1,525	1.60
UF	29,200	1,767	6.05	29,411	2,217	7.54	26,078	1,501	5.76
Foreign currency	42,856	362	0.84	56,977	240	0.42	49,712	159	0.32
Total	**132,200**	**3,275**	**2.48**	**168,858**	**3,782**	**2.24**	**170,977**	**3,185**	**1.86**

Total interest bearing liabilities									
Ch$	4,561,184	92,420	2.03	5,891,841	302,366	5.31	6,658,926	376,789	5.66
UF	3,603,188	196,184	5.45	4,118,505	291,185	7.07	4,895,143	296,529	6.06
Foreign currency	2,559,185	35,773	1.40	2,537,686	30,658	1.21	2,557,507	35,311	1.38
Total	**Ch$ 10,723,557**	**Ch$ 324,377**	**3.03%**	**Ch$ 12,548,032**	**Ch$ 624,209**	**4.97%**	**Ch$ 14,111,576**	**Ch$ 708,629**	**5.02%**

Table of Contents

	Year Ended December 31,								
	2010			2011			2012		
IFRS:	Average balance	Interest paid	Average nominal rate	Average balance	Interest paid	Average nominal rate	Average balance	Interest paid	Average nominal rate
	(in millions of Ch$, except percentages)								
Liabilities									
Non interest bearing liabilities									
Current account and demand deposit									
Ch$	Ch$ 3,452,445	Ch$		Ch$ 3,751,441	Ch$		Ch$ 4,093,133	Ch$	
UF	107,937			167,004			159,501		
Foreign currency	525,418			621,890			673,841		
Total	**4,085,800**			**4,540,335**			**4,926,475**		
Transaction in the course of payment									
Ch$	139,131			141,285			127,303		
UF									
Foreign currency	142,429			240,505			175,972		
Total	**281,560**			**381,790**			**303,275**		
Derivatives									
Ch$	434,521			401,759			338,598		
UF				80					
Foreign currency	77,072			77,111			92,303		
Total	**511,593**			**478,950**			**430,901**		
Current liabilities									
Ch$	14,143			3,851			12,470		
UF									
Foreign currency									
Total	**14,143**			**3,851**			**12,470**		
Deferred tax liabilities									
Ch$	19,052			32,262			56,830		
UF									
Foreign currency									
Total	**19,052**			**32,262**			**56,830**		
Provisions									
Ch$	49,109			91,622			98,794		
UF									
Foreign currency									
Total	**49,109**			**91,622**			**98,794**		

Other liabilities						
Ch$	206,557		280,892		237,218	
UF	10,247		12,916		15,891	
Foreign currency	6,223		16,320		33,788	
Total	**223,027**		**310,128**		**286,897**	
Equity						
Ch$	1,670,413		1,937,960		2,210,769	
UF						
Foreign currency						
Total	**1,670,413**		**1,937,960**		**2,210,769**	
Total non-interest bearing liabilities and equity						
Ch$	5,985,371		6,641,072		7,175,115	
UF	118,184		180,000		175,392	
Foreign currency	751,142		955,826		975,904	
Total	**6,854,697**		**7,776,898**		**8,326,411**	
Total liabilities and equity						
Ch$	10,546,555	92,420	12,532,913	302,366	13,834,041	376,774
UF	3,721,372	196,184	4,298,505	291,185	5,070,535	296,437
Foreign currency	3,310,327	35,773	3,493,512	30,658	3,533,411	42,260
Total	**Ch$ 17,578,254**	**Ch$ 324,377**	**Ch$ 20,324,930**	**Ch$ 624,209**	**Ch$ 22,437,987**	**Ch$ 715,471**

Table of Contents

Interest Earning Assets and Net Interest Margin

The following table sets forth, by currency of denomination, the levels of our average interest earning assets and net interest, and illustrates the comparative margins obtained, for the years ended December 31, 2011 and 2012:

IFRS:	For the Year Ended December 31, 2010	2011	2012
	(in millions of Ch$, except percentages)		
Total average interest earning assets			
Ch$	Ch$ 7,238,331	Ch$ 8,175,501	Ch$ 9,444,978
UF	6,702,142	7,679,479	8,740,547
Foreign currency	1,836,357	2,421,855	2,412,069
Total	**15,776,830**	**18,276,835**	**20,597,594**
Net interest earned (including interest earned on trading securities)(1)			
Ch$	539,604	536,392	652,862
UF	245,991	328,917	298,621
Foreign currency	8,308	28,768	31,452
Total	**Ch$ 793,903**	**Ch$ 894,077**	**Ch$ 982,935**
Net interest margin, nominal basis(2)			
Ch$	7.45%	6.56%	6.91%
UF	3.67	4.28	3.42
Foreign currency	0.45	1.19	1.30
Total	**5.03%**	**4.89%**	**4.77%**

(1) Net interest earned is defined as interest revenue earned less interest expense incurred.
(2) Net interest margin, nominal basis is defined as net interest earned divided by average interest earning assets.

Table of Contents

Changes in Net Interest Income Volume and Rate Analysis

The following tables compare, by currency of denomination, changes in our net interest revenue between 2011 and 2012 caused by (i) changes in the average volume of interest earning assets and interest bearing liabilities and (ii) changes in their respective nominal interest rates. Volume and rate variances were calculated based on movements in average balances over the period and changes in nominal interest rate, average interest earning assets and average interest bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change in volume and the change in rate.

IFRS:	Increase (Decrease) from 2010 to 2011 due to changes in Volume	Rate	Net change from 2010 to 2011	Increase (Decrease) from 2011 to 2012 due to changes in Volume	Rate	Net change from 2011 to 2012
			(in millions of Ch$)			
Assets						
Interest earning assets						
Deposits in Central Bank						
Ch$	Ch$ 65	Ch$ 2,133	Ch$ 2,198	Ch$ 488	Ch$ (1,391)	Ch$ (903)
UF						
Foreign currency	15	81	96	(29)	(17)	(46)
Total	**80**	**2,214**	**2,294**	**459**	**(1,408)**	**(949)**
Financial investments						
Ch$	761	12,183	12,944	4,119	14,887	19,006
UF	(2,655)	11,679	9,024	6,649	(9,135)	(2,486)
Foreign currency	1,380	3,684	5,064	(160)	(4,284)	(4,444)
Total	**(514)**	**27,546**	**27,032**	**10,608**	**1,468**	**12,076**
Loans in advance to banks						
Ch$	1,247	1,870	3,117	(323)	2,994	2,671
UF						
Foreign currency						
Total	**1,247**	**1,870**	**3,117**	**(323)**	**2,994**	**2,671**
Commercial loans						
Ch$	29,087	101,330	130,417	71,377	13,878	85,255
UF	36,355	52,179	88,534	20,413	(42,207)	(21,794)
Foreign currency	12,574	(2,389)	10,185	32	11,795	11,827
Total	**78,016**	**151,120**	**229,136**	**91,822**	**(16,534)**	**75,288**
Consumer loans						
Ch$	62,866	(4,655)	58,211	61,786	25,526	87,312
UF	429	389	818	(654)	271	(383)
Foreign currency						
Total	**63,295**	**(4,266)**	**59,029**	**61,132**	**25,797**	**86,929**
Residential mortgage loans						
Ch$						
UF	40,775	38,776	79,551	51,463	(51,752)	(289)
Foreign currency						

Total	**40,775**	**38,776**	**79,551**	**51,463**	**(51,752)**	**(289)**
Repurchase agreement						
Ch$	712	(865)	(153)	(2,817)	369	(2,448)
UF						
Foreign currency						
Total	**712**	**(865)**	**(153)**	**(2,817)**	**369**	**(2,448)**
Total interest earning assets						
Ch$	94,738	111,996	206,734	134,630	56,263	190,893
UF	74,904	103,023	177,927	77,871	(102,823)	(24,952)
Foreign currency	13,969	1,376	15,345	(157)	7,494	7,337
Total	**Ch$ 183,611**	**Ch$ 216,395**	**Ch$ 400,006**	**Ch$ 212,344**	**Ch$ (39,066)**	**Ch$ 173,278**

Table of Contents

IFRS:	Increase (Decrease) from 2010 to 2011 due to changes in Volume	Rate	Net change from 2010 to 2011	Increase (Decrease) from 2011 to 2012 due to changes in Volume	Rate	Net change from 2011 to 2012
			(in millions of Ch$)			
Liabilities						
Interest bearing liabilities						
Savings accounts and time deposits						
Ch$	Ch$ 29,972	Ch$ 165,848	Ch$ 195,820	Ch$ 48,774	Ch$ 24,906	Ch$ 73,680
UF	7,260	44,102	51,362	6,305	(12,237)	(5,932)
Foreign currency	(2,927)	(3,002)	(5,929)	(446)	(1,276)	(1,722)
Total	**34,305**	**206,948**	**241,253**	**54,633**	**11,393**	**66,026**
Repurchase agreements						
Ch$	614	8,592	9,206	3,309	820	4,129
UF	(183)	(184)	(367)		10	10
Foreign currency	2		2	2	(4)	(2)
Total	**433**	**8,408**	**8,841**	**3,311**	**826**	**4,137**
Borrowing from financial institutions						
Ch$	3,519	415	3,934	(7,809)	4,787	(3,022)
UF	10	(32)	(22)		1	1
Foreign currency	2,752	(1,706)	1,046	(1,240)	2,789	1,549
Total	**6,281**	**(1,323)**	**4,958**	**(9,049)**	**7,577**	**(1,472)**
Debt issued						
Ch$	(323)	1,130	807	(491)	(73)	(564)
UF	28,229	15,349	43,578	48,160	(36,179)	11,981
Foreign currency	(165)	53	(112)	5,561	(652)	4,909
Total	**27,741**	**16,532**	**44,273**	**53,230**	**(36,904)**	**16,326**
Other financial obligation						
Ch$	379	(200)	179	204	(4)	200
UF	13	437	450	(16)	(700)	(716)
Foreign currency	96	(218)	(122)	(28)	(53)	(81)
Total	**488**	**19**	**507**	**160**	**(757)**	**(597)**
Total interest bearing liabilities						
Ch$	34,161	175,785	209,946	43,987	30,436	74,423
UF	35,335	59,666	95,001	54,449	(49,105)	5,344
Foreign currency	(242)	(4,873)	(5,115)	3,849	804	4,653
Total	**Ch$ 69,254**	**Ch$ 230,578**	**Ch$ 299,832**	**Ch$ 102,285**	**Ch$ (17,865)**	**Ch$ 84,420**

Table of Contents

Financial Investments

Financial assets held-for-trading:

The detail of instruments classified as financial assets held-for-trading is as follows:

IFRS:	As of December 31, 2010 (in millions of Ch$)	2011	2012	Weighted Average Nominal Rate as of December 31, 2012 %
Instruments issued by the Chilean Government and the Central Bank:				
Central Bank bonds	Ch$ 44,624	Ch$ 66,243	Ch$ 25,585	2.70%
Central Bank promissory notes	3,266	4,657	3,068	4.50
Other instruments issued by the Chilean Government and the Central Bank	109,302	6,942	43,726	2.59
Other instruments issued in Chile:				
Mortgage bonds from domestic banks	196	61	22	5.40
Bonds from domestic banks	1,740	585		
Deposits in domestic banks	119,002	191,003	87,093	6.56
Bonds from other Chilean companies				
Other instruments issued in Chile	1,635	370	188	
Instruments issued by foreign institutions:				
Instruments from foreign governments or central banks				
Other instruments issued abroad				
Total	Ch$ 279,765	Ch$ 269,861	Ch$ 159,682	2.31%

Instruments issued by the Chilean Government and the Central Bank include instruments sold under agreements to repurchase to customers and financial institutions, amounting to Ch$10,792 million as of December 31, 2010, Ch$29,811 million as of December 31, 2011 and no balance as of December 31, 2012. Under Other instruments issued in Chile are included instruments sold under agreements to repurchase to customers and financial instruments, amounting to Ch$56,743 million as of December 31, 2010, Ch$152,431 million as of December 31, 2011 and Ch$86,863 million as of December 31, 2012.

Table of Contents

Investment Portfolio:

The detail of instruments classified as financial assets available-for-sale and as financial assets held-to-maturity is as follows:

Financial assets available-for-sale

IFRS:	2010	As of December 31, 2011 (in millions of Ch$)	2012	Weighted average nominal rate as of December 31, 2012 %
Instruments issued by the Chilean Government and the Central Bank:				
Bonds issued by the Chilean Government and the Central Bank	Ch$ 67,822	Ch$ 158,865	Ch$ 110,569	3.99%
Promissory notes issued by the Chilean Government and the Central Bank	212,816	58,564	969	3.25
Other instruments	90,849	194,965	140,246	3.29
Other instruments issued in Chile:				
Equity instruments valued at cost	2,222	2,222	613	
Equity instruments valued at fair value			7,263	
Mortgage bonds from domestic banks	70,055	87,966	85,688	3.82
Bonds from domestic banks	73,331	124,203	116,100	4.07
Deposits from domestic banks	398,789	521,881	560,390	6.88
Bonds from other Chilean companies	40,467	54,449	32,281	5.29
Other instruments	116,682	139,602	129,693	6.17
Instruments issued by Foreign Institutions:				
Instruments from foreign governments or central banks				
Other instruments issued abroad	84,072	128,403	88,504	5.39
Total	Ch$ 1,157,105	Ch$ 1,471,120	Ch$ 1,272,316	4.90%

The portfolio of financial assets available for sale included net unrealized gains of Ch$696 million and Ch$24,829 million as of December 31, 2011 and December 31, 2012, respectively, in each case recorded in other comprehensive income within equity.

Financial assets held-to-maturity

There are no securities reported under this category as of December 31, 2010, December 31, 2011 or December 31, 2012.

Maturity of Financial Investments:

The maturities of financial assets held-for-trading and financial assets available-for-sale, as of December 31, 2012 were as follows:

IFRS:	Due within 1 year	Due after 1 year but within 3 years	As of December 31, 2012 Due after 3 years but within 5 years (in millions of Ch$)	Due after 5 years	Total
Financial assets held-for-trading	159,682				159,682
Financial assets available-for-sale	787,053	152,075	132,382	200,806	1,272,316

Total	946,735	152,075	132,382	200,806	1,431,998

Table of Contents

Loan Portfolio

The following table sets forth our loans by type of loan and risk classification. All loan amounts stated below are before deduction of allowances for loan losses.

		As of December 31,	
	2010	2011	2012
IFRS:		(in millions of Ch$)	
Commercial loans:			
Commercial loans	Ch$ 6,969,374	Ch$ 7,872,546	Ch$ 8,551,170
Foreign trade loans	913,658	1,509,147	1,240,955
Current account debtors	122,106	214,479	189,399
Factoring transactions	477,133	589,098	606,137
Commercial lease transactions	777,294	996,566	1,113,272
Other loans and accounts receivable	37,841	31,607	40,647
Subtotal	9,297,406	11,213,443	11,741,580
Mortgage loans:			
Mortgage bonds	164,474	134,377	109,215
Endorsable mortgage loans	205,260	175,258	151,206
Other residential real estate mortgage loans	2,556,335	3,297,331	3,937,766
Residential lease transactions			27
Other loans and accounts receivable	552	468	453
Subtotal	2,926,621	3,607,434	4,198,667
Consumer loans:			
Consumer loans in installments	1,482,056	1,763,101	1,906,273
Current account debtors	230,767	232,972	245,066
Credit card debtors	440,791	569,290	679,986
Consumer lease transactions			
Other loans and accounts receivable	354	257	189
Subtotal	2,153,968	2,565,620	2,831,514
Total loans	**Ch$ 14,377,995**	**Ch$ 17,386,497**	**Ch$ 18,771,761**

The loan categories are as follows:

Commercial Loans are loans and accounts receivable from clients not included within the mortgage or consumer loans categories.

Mortgage Loans include mortgage loans granted to individuals to acquire, expand, repair or build a home, issued as mortgage bonds, endorsable mortgage loans or by other methods. It also includes supplementary loans for the same purposes and bridge loans granted before the mortgage loan has been settled. This subcategory also includes residential real estate lease transactions and other accounts receivable.

Consumer Loans are all loans granted to individuals to be used for purchasing goods or services. These include different types of loans (either installments or revolving), as well as balances from credit card transactions or 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 business activities that the debtor is developing or that it may develop.

Table of Contents

Maturity and Interest Rate Sensitivity of Loans as of December 31, 2012

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2012:

	Balance as of December 30, 2012	Due within 1 month	Due after 1 month but within 6 months	Due after 6 months but within 12 months (in millions of Ch$)	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years
IFRS:							
Commercial loans:							
Commercial loans	Ch$ 8,551,170	Ch$ 736,964	Ch$ 2,118,721	Ch$ 903,060	Ch$ 2,278,452	Ch$ 1,066,282	Ch$ 1,447,691
Foreign trade loans	1,240,955	290,547	751,420	121,689	41,603	30,763	4,933
Current account debtors	189,399	189,399					
Factoring loans	606,137	357,527	172,002	52,100	24,508		
Leasing loans	1,113,272	35,664	150,502	161,646	423,667	161,143	180,650
Other loans	40,647	37,185	1,556	939	833	126	8
Subtotal	11,741,580	1,647,286	3,194,201	1,239,434	2,769,063	1,258,314	1,633,282
Mortgage Loans:							
Mortgage bonds	109,215	2,335	7,143	8,769	31,515	23,389	36,064
Endorsable mortgage loans	151,206	3,764	9,120	8,852	31,404	27,460	70,606
Residential mortgage loans	3,937,793	32,099	80,621	98,404	407,946	421,028	2,897,695
Other loans	453	453					
Subtotal	4,198,667	38,651	96,884	116,025	470,865	471,877	3,004,365
Consumer loans:							
Consumer loans	1,906,273	108,985	352,931	342,760	870,472	215,393	15,732
Current account debtors	245,066	245,066					
Credit card	679,986	645,963	34,023				
Other loans	189	189					
Subtotal	2,831,514	1,000,203	386,954	342,760	870,472	215,393	15,732
Total loans	**Ch$ 18,771,761**	**Ch$ 2,686,140**	**Ch$ 3,678,039**	**Ch$ 1,698,219**	**Ch$ 4,110,400**	**Ch$ 1,945,584**	**Ch$ 4,653,379**

The following table sets forth the interest rate sensitivity of our outstanding loans due after one year as of December 31, 2012:

	As of December 31, 2012 (in millions of Ch$)
IFRS:	
Variable rate	
Ch$	Ch$ 795,774
UF	580,917
Foreign currency	276,728
Total	**1,653,419**
Fixed rate	
Ch$	2,457,487
UF	6,388,832
Foreign currency	209,625
Total	**Ch$ 9,055,944**
Total	**Ch$ 10,709,363**

Table of Contents

Loans by Economic Activity

The following table sets forth under IFRS, at the dates indicated, an analysis of our loan portfolio based on the borrower s principal economic activity. Loans to individuals for business purposes are allocated to their respective economic activity.

	As of December 31,					
	2010		2011		2012	
IFRS:	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio
	(in millions of Ch$, except percentages)					
Agriculture, Livestock, Forestry, Agribusiness, Fishing:						
Agriculture and livestock	Ch$ 420,384	2.92%	Ch$ 482,392	2.77%	Ch$ 380,239	2.43%
Fruit	275,060	1.91	329,728	1.90	318,241	1.70
Forestry and wood extraction	70,765	0.49	100,799	0.58	125,236	0.67
Fishing	238,835	1.66	271,901	1.56	311,477	1.25
Subtotal	1,005,044	6.98	1,184,820	6.81	1,135,193	6.05
Mining and Petroleum:						
Mining and quarries	177,479	1.23	399,752	2.30	372,437	1.98
Natural gas and crude oil extraction	2,599	0.02				
Subtotal	180,078	1.25	399,752	2.30	372,437	1.98
Manufacturing:						
Tobacco, food and beverages	434,796	3.02	509,613	2.93	499,700	2.66
Textiles, clothing and leather goods	46,946	0.33	51,416	0.30	167,500	0.89
Wood and wood products	29,874	0.21	28,582	0.16	31,055	0.17
Paper, printing and publishing	54,337	0.38	68,534	0.39	60,355	0.32
Oil refining, carbon and rubber	28,214	0.20	93,080	0.54	64,708	0.34
Production of basic metal, non-mineral, machine and equipment	338,057	2.35	375,500	2.16	356,290	1.90
Other manufacturing industries	202,777	1.41	362,094	2.08	201,386	1.08
Subtotal	1,135,001	7.90	1,488,819	8.56	1,380,994	7.36
Electricity, Gas and Water:						
Electricity, gas and water	310,774	2.16	315,338	1.81	328,763	1.75
Subtotal	310,774	2.16	315,338	1.81	328,763	1.75
Construction:						
Residential buildings	609,532	4.25	793,842	4.57	1,074,856	5.73
Other constructions	114,745	0.80	151,000	0.86	177,690	0.94
Subtotal	724,277	5.05	944,842	5.43	1,252,546	6.67
Commerce:						
Wholesale	746,448	5.19	1,020,572	5.87	921,459	4.91

Retail, restaurants and hotels	1,260,721	8.77	1,266,716	7.29	1,403,210	7.47
Subtotal	2,007,169	13.96	2,287,288	13.16	2,324,669	12.38
Transport, Storage and Communications:						
Transport and storage	1,079,386	7.51	1,244,499	7.16	1,397,741	7.45
Communications	99,726	0.69	162,859	0.93	72,617	0.38
Subtotal	1,179,112	8.20	1,407,358	8.09	1,470,358	7.83
Financial Services:						
Financial and insurance companies	1,615,006	11.23	1,937,788	11.15	1,796,921	9.57
Real estate and other financial services	83,580	0.58	83,723	0.48	57,650	0.31
Subtotal	1,698,586	11.81	2,021,511	11.63	1,854,571	9.88
Community, Social and Personal Services:						
Community, social and personal services	1,050,616	7.31	1,084,380	6.24	1,310,573	6.98
Subtotal	1,050,616	7.31	1,084,380	6.24	1,310,573	6.98
Others	325		79,335	0.46	311,476	1.67
Consumer Loans	2,159,235	15.02	2,565,620	14.76	2,831,514	15.08
Residential Mortgage Loans	2,927,778	20.36	3,607,434	20.75	4,198,667	22.37
Total	**Ch$ 14,377,995**	**100.00%**	**Ch$ 17,386,497**	**100.00%**	**Ch$ 18,771,761**	**100.00%**

Table of Contents

Foreign Country Outstanding Loans

Our cross-border outstanding loans are principally trade-related. These loans include loans to foreign financial institutions and foreign corporations, some of which are guaranteed by their Chilean parent company. The table below lists under IFRS the total amounts outstanding to borrowers in certain foreign countries as of the dates indicated, and thus does not include foreign trade-related loans to domestic borrowers.

		As of December 31,	
	2010	2011	2012
IFRS:		(in millions of Ch$)	
Argentina	Ch$ 3,307	Ch$ 4,559	Ch$ 4,559
Australia		12,710	11,553
Austria		180	212
Belgium		6,254	269
Bolivia		82	168
Brazil	175,453	204,477	200,016
Canada		1,891	618
China	133,784	281,294	223,515
Colombia	7,967	29,299	7,019
Costa Rica	6,138		
Denmark		132	31,457
El Salvador	4,251		
Finland		400	69
France	7,618	191	627
Germany		1,643	33,475
Holland		15,562	16,148
Hong Kong	117	1,405	91
India	44	116,130	76,788
Israel		506	1,112
Italy		433	157
Japan	247	53	4,228
Mexico	36,309	87,154	94,814
New Zealand			
Peru	11,565	12,384	18,148
Singapore		9,238	10,089
South Korea	14,811	64,041	56,789
Spain		1,243	425
Switzerland		46	11,605
Sweden		3,546	6,446
Taiwan		383	
Turkey			975
United Kingdom	371	24,490	38,332
United States		15,138	36,474
Uruguay	165		
Total	**Ch$ 402,147**	**Ch$ 894,864**	**Ch$ 886,178**

As a result of the economic and financial uncertainty observed in the Euro zone, the Bank is constantly monitoring the credit risk condition of certain European countries. In this line, as of December 31, 2012, the Bank maintains exposures of contingent credits (standby letters of credits and performance bonds) with certain European countries as follows:

	As of December 31, 2012

	(in millions of Ch$)
Italy	Ch$ 11,320
Spain	27,465
Total	**Ch$ 38,785**

As of December 31, 2012, the Bank does not have any exposure relating to any other product such as: financial assets available-for-sale, financial assets held-for-trading, derivatives instruments, working capital, lines of credit, etc. with the countries mentioned in the table above.

Table of Contents

We also maintain deposits abroad, as needed to conduct our foreign trade transactions and manage liquidity. The table below lists the largest amounts of foreign deposits by country under IFRS as of the end of the dates indicated:

IFRS:	As of December 31, 2010	2011 (in millions of Ch$)	2012
Australia	Ch$ 382	Ch$ 736	Ch$ 502
Austria			
Belgium	688	90	
Brazil			9
Canada	775	1,697	743
China	79	128	766
Denmark	59	74	99
Finland	110	99	74
France	1,162	676	339
Germany	6,133	3,745	9,199
Holland	1,628	301	1,018
Italy	1,638	109	
Japan	4,497	5,259	4,325
Mexico		694	484
Norway		116	114
Peru		9	29
Russia			
Spain	1,123	69	
Sweden	138	199	
Switzerland		2,092	343
United Kingdom	1,323	36,147	13,229
United States	22,888	236,753	170,275
Total	**Ch$ 42,623**	**Ch$ 288,993**	**Ch$ 201,548**

Credit Review Process

Credit risk is the risk that we will incur a loss because our customers or counterparties do not comply with their contractual obligations.

This risk is managed using a global, unified and forward-looking strategy, which recognizes the current and projected economic environment of the markets and segments in which our different businesses are developing and grants appropriate credit treatment to each such market or segment by using risk limits that we are willing to accept from counterparties.

Managing credit risk is, therefore, inherent to our business and must be incorporated into each segment in which we do business. In this way, we may achieve an optimum balance between assumed risks and attained returns and properly allocate capital to each business line while complying with regulations and criteria defined by our board of directors in order to ensure that we have an appropriate capital base for potential losses that may arise from our credit exposure.

Counterparty limits are established by analyzing financial information, risk ratings, the nature of the exposure, documentation, guarantees, market conditions and the pertinent industry sector, among other factors. The process of monitoring credit quality also includes identifying in advance any possible changes in a counterparty s payment capacity, which enables us to evaluate the potential loss from these risks and take corrective actions.

Approval Process

Loan analysis and approval is conducted using a differentiated approach for each market segment, using three separate credit-risk models:

Automated Model: This model focuses on individuals from the mass-market segment (i.e., not business-related) and is based on the integral automation of processes, which consist of admission, approval, follow-up and recovery, using scoring and behavior-based approval systems.

Table of Contents

We have also developed a broad level of knowledge regarding selection of customers, with a significant capacity to discriminate between customers of different credit bases. Using this model, we have developed separate segmented models for retail banking and Banco CrediChile. In the case of our Consumer Finance Division (Banco CrediChile), there are further distinctions for employed customers, which are separated into the following five sub-segments: retired persons, employees in the public sector, employees in the private sector over 40 years of age, employees in the private sector under 40 years of age and self-employed.

In retail banking there are also sub-segments divided by activity and length of the customer s relationship with us.

Parametric Model: This model is applied to individuals and small- and medium-sized companies in business. To analyze these segments, we use certain levels of automation and parameterization. Automation currently provides a fundamental pillar for the pre-approval process for small companies and support for potential evaluations of medium-sized companies.

Case-by-Case Model: This model is used for the wholesale business segment. It is based on individual expert evaluation on risk level, operation amount and business complexity, among other variables.

Transactions in which the total customer credit risk is more than Ch$16,721 million require approval from a credit committee, composed of three directors and our Chief Executive Officer. Transactions in which the total customer credit risk is equal to or less than Ch$16,721 million may be approved by other executives, depending on the amount involved, as follows:

Approved by	Limit in MCh$
Credit committee, including members of the board of directors	up to legal limits
Chief executive officer, chairman and senior credit risk officer	up to MCh$16,721
Chief executive officer, chairman or senior credit risk officer (any two of the three)	up to MCh$11,147
Chief executive officer and executive credit risk officers	up to MCh$7,803
Senior credit risk officers and executive vice president of corporate banking	up to MCh$7,803
Executive credit risk officers and Executive vice president of corporate banking	up to MCh$3,121
Other credit risk officers	up to MCh$1,115
Executive vice president of corporate banking	up to MCh$1,115
Other department heads	up to MCh$446
Other officers	up to MCh$223

In addition to reviewing the credit limit, the business segment extending the credit must review the terms of the loan, the interest rate and any security to be obtained.

Control and Follow-up

The ongoing control and follow-up of credit risk is the basis for proactive portfolio management and enables risk to be recognized opportunely, thus identifying business opportunities and detecting potential impairment before it occurs.

In the wholesale business segment, control and follow-up are realized through a combination of reviews. The most relevant are the following:

High-level structured portfolio reviews with respect to the impact of specific macroeconomic fluctuations on relevant sectors of activity, defining case-by-case action plans.

Constant monitoring system in order to detect early those customers that show potential risks, agreeing on specific action plans for these customers with the corresponding client servicing team.

Payment arrears management, backed by predictive indicators of risk level, with follow-up and action plans in the case of our most important customers, plus management of differentiated strategies for early recovery.

Follow-up on the conditions, restrictions and covenants imposed by the credit committee to all operations requiring it due to their importance or complexity.

Table of Contents

Control of the exposure as well as the sufficiency of guarantees granted in the form of shares, monitoring fluctuations and preparing action plans in the event of insufficient coverage.

Follow-up schemes of credit behavior variables and borrowers financial condition.

Risk segmentation strategies for collection processes and policies to better integrate loan approval and monitoring processes based on a single set of credit fundamentals.

Analysis of Our Loan Classification

The following tables provide statistical data under IFRS regarding the classification of our loans as of the dates indicated. As discussed above, our risk analysis system requires that loans to all customers be classified.

IFRS:	**As of December 31, 2010(*)**				
	Commercial Loans	**Residential Mortgage Loans**	**Consumer Loans**	**Total Loans**	**Percentage Loans of Classified**
Bank s Credit Rating:	**(in millions of Ch$, except percentages)**				
A1	Ch$ 28,728	Ch$	Ch$	Ch$ 28,728	0.35%
A2	2,346,028			2,346,028	28.19
A3	2,098,218			2,098,218	25.21
B	3,380,009			3,380,009	40.61
Impaired Portfolio	469,971			469,971	5.64
Total individual classified loans	**Ch$ 8,322,954**	**Ch$**	**Ch$**	**Ch$ 8,322,954**	**100.00%**
Group non-classified loans	838,074	2,856,020	2,045,849	5,739,943	
Group impaired portfolio	129,954	71,758	113,386	315,098	
Total loans	**Ch$ 9,290,982**	**Ch$ 2,927,778**	**Ch$ 2,159,235**	**Ch$ 14,377,995**	
Percentage Classified	**89.58%**			**57.89%**	

(*) On January 1, 2010, the criteria for classification of the impaired portfolio was changed, whereby 100% of categories C1 and C2 are considered to be in impairment, unlike in 2009, where customers that were classified in categories C1 and C2 who were not overdue for more than 60 days were not included.

IFRS:	**As of December 31, 2011(*)**				
	Commercial Loans	**Residential Mortgage Loans**	**Consumer Loans**	**Total Loans**	**Percentage Loans of Classified**
Bank s Credit Rating:	**(in millions of Ch$, except percentages)**				
A1	Ch$ 50,449	Ch$	Ch$	Ch$ 50,449	0.52%
A2	2,393,915			2,393,915	24.85
A3	3,173,274			3,173,274	32.94
A4	1,889,504			1,889,504	19.62
A5	1,299,391			1,299,391	13.49
A6	605,626			605,626	6.27
Normal Portfolio	9,412,159			9,412,159	97.69
B1	39,682			39,682	0.41

B2	8,664			8,664	0.09
B3	6,542			6,542	0.07
B4	1,517			1,517	0.02
Substandard Portfolio	56,405			56,405	0.59
C1	19,083			19,083	0.20
C2	11,405			11,405	0.12
C3	35,413			35,413	0.37
C4	15,886			15,886	0.16
C5	55,893			55,893	0.58
C6	26,179			26,179	0.29
Non-complying Portfolio	163,859			163,859	1.72
Total Individual Classified Loans	**Ch$ 9,632,423**	**Ch$**	**Ch$**	**Ch$ 9,632,423**	**100.00%**
Normal Portfolio	1,443,208	3,543,520	2,439,495	7,426,223	
Non-complying Portfolio	137,812	63,914	126,125	327,851	
Total Group Classified Loans	**Ch$ 1,581,020**	**Ch$ 3,607,434**	**Ch$ 2,565,620**	**Ch$ 7,754,074**	
Total loans	**Ch$ 11,213,443**	**Ch$ 3,607,434**	**Ch$ 2,565,620**	**Ch$ 17,386,497**	
Percentage Classified	**85.90%**			**55.40%**	

81

Table of Contents

IFRS:	As of December 31, 2012(*)				
Bank s Credit Rating:	Commercial Loans	Residential Mortgage Loans	Consumer Loans	Total Loans	Percentage Loans of Classified
	(in millions of Ch$, except percentages)				
A1	Ch$ 40	Ch$	Ch$	Ch$	%
A2	2,024,110			2,024,110	20.93
A3	2,642,389			2,642,389	27.32
A4	1,998,263			1,998,263	20.66
A5	1,875,478			1,875,478	19.39
A6	778,283			778,283	8.03
Normal Portfolio	9,318,563			9,318,563	96.33
B1	134,201			134,201	1.39
B2	21,709			21,709	0.22
B3	41,155			41,155	0.43
B4	8,613			8,613	0.09
Substandard Portfolio	205,678			205,678	2.13
C1	22,521			22,521	0.23
C2	13,753			13,753	0.14
C3	5,636			5,636	0.06
C4	52,562			52,562	0.54
C5	17,895			17,895	0.19
C6	35,323			35,323	0.38
Non-complying Portfolio	147,690			147,690	1.54
Total Individual Classified Loans	**Ch$ 9,671,931**			**Ch$ 9,671,931**	**100.00%**
Normal Portfolio	1,877,452	4,149,265	2,651,347	8,678,064	
Non-complying Portfolio	192,197	49,402	180,167	421,766	
Total Group Classified Loans	**Ch$ 2,069,649**	**Ch$ 4,198,667**	**Ch$ 2,831,514**	**Ch$ 9,099,830**	
Total loans	**Ch$ 11,741,580**	**Ch$ 4,198,667**	**Ch$ 2,831,514**	**Ch$ 18,771,761**	
Percentage Classified	**82.37%**			**51.52%**	

(*) On January 1, 2011, the credit ratings for debtors with individual assessment changed, separating the portfolio into Normal (categories A1-A6), substandard (B1 B4) and Non-complying (C1-C6), as shown in the above table (see note 41(f) of Financial Statements).

Classification of Loan Portfolio

Individual Classified Loans

An individual analysis of debtors is applied to individuals and companies that are of such significance with respect to size, complexity or level of exposure to the Bank, that they must be analyzed in detail. For purposes of establishing the appropriate allowances, the Bank classifies the debtors and their operations related to loans into one of three categories of loans portfolio: Normal, Substandard and Non-Complying Loans.

Normal Loans

Normal loans correspond to borrowers who are up to date on their payment obligations and show no sign of deterioration in their credit quality.

Substandard Loans

Substandard loans include all borrowers with insufficient payment capacity or significant deterioration of payment capacity that may be reasonably expected not to comply with all principal and interest payments obligations set forth in the credit agreement. This category also includes all loans that have been non-performing for more than 30 days.

Table of Contents

Non-Complying Loans

The non-complying loans correspond to borrowers whose payment capacity is seriously at risk and who have a high likelihood of filing for bankruptcy or are renegotiating credit terms to avoid bankruptcy. This category comprises all loans outstanding from debtors that have at least one installment payment of interest or principal overdue for 90 days or more.

Group Classified Loans

The group analysis is used to analyze a large number of loans 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.

Classification of Loan Portfolio Based on the Borrower s Payment Performance

The following tables set forth under IFRS as of the dates indicated the amounts that are current as to payments of principal and interest and the amounts that are overdue:

	Domestic Loans[1] As of December 31,		
IFRS:	2010	2011 (in millions of Ch$)	2012
Current	Ch$ 12,724,970	Ch$ 15,593,412	Ch$ 17,196,949
Total Overdue 1-29 days	945,689	1,165,108	949,285
Total Overdue 30-89 days	498,612	298,729	135,620
Total Past Due 90 days or more	172,075	178,905	181,863
Total loans	**Ch$ 14,341,346**	**Ch$ 17,236,154**	**Ch$ 18,463,717**

	Foreign Loans[1] As of December 31,		
IFRS:	2010	2011 (in millions of Ch$)	2012
Current	Ch$ 36,649	Ch$ 150,343	Ch$ 308,044
Total Overdue 1-29 days			
Total Overdue 30-89 days			
Total Past Due 90 days or more			
Total loans	**Ch$ 36,649**	**Ch$ 150,343**	**Ch$ 308,044**

	Total Loans[1] As of December 31,		
IFRS:	2010	2011 (in millions of Ch, except percentages)	2012
Current	Ch$ 12,761,619	Ch$ 15,743,755	Ch$ 17,504,993
Total Overdue 1-29 days	945,689	1,165,108	949,285
Total Overdue 30-89 days	498,612	298,729	135,620
Total Past Due 90 days or more	172,075	178,905	181,863
Total loans	**Ch$ 14,377,995**	**Ch$ 17,386,497**	**Ch$ 18,771,761**
	11.24%	9.45%	6.75%

Total Overdue loans expressed as a percentage of total loans			
Total Past-due loans as a percentage of total loans	1.20%	1.03%	0.97%

(1) Total past-due and total overdue loans refer to installments that are past-due or overdue and the remaining outstanding balance of such loans (principal and interest).

Loans included in the previous table, which have been restructured and bear no interest, are as follows:

	As of December 31,		
	2010	2011	2012
IFRS:		(in millions of Ch$)	
Ch$	Ch$ 2,550	Ch$ 2,547	Ch$ 4,605
UF	128	128	128
Total	**Ch$ 2,678**	**Ch$ 2,675**	**Ch$ 4,733**

Table of Contents

The amount of interest we would have recorded on these loans for the year ended December 31, 2012 had these loans been earning a market interest rate was Ch$205 million.

In addition, other loans that were restructured, mainly through the extension of their maturities, and that bear interest, are as follows:

	As of December 31,		
	2010	2011	2012
IFRS:		(in millions of Ch$)	
Total other restructured loans	**Ch$ 328,370**	**Ch$ 338,725**	**Ch$ 362,862**

During the year ended December 31, 2012, interest recorded in income on these loans amounted to Ch$30,846 million.

Analysis of Substandard Loans and Total Past Due

The following table analyzes our substandard loans, total past-due loans and allowances for loan losses existing at the dates indicated under IFRS.

	Year ended December 31,		
	2010	2011	2012
IFRS:		(in millions of Ch$, except percentages)	
Total loans	Ch$ 14,377,995	Ch$ 17,386,497	Ch$ 18,771,761
Impaired loans(1)	785,069	499,768	611,281
Impaired loans as a percentage of total loans	5.46%	2.87%	3.31%
Total past due			
To the extent secured(2)	23,781	17,388	19,656
To the extent unsecured	148,294	161,517	162,207
Total past due	**172,075**	**178,905**	**181,863**
Total past due as a percentage of total loans	1.20%	1.03%	0.97%
To the extent secured	0.17	0.10	0.10
To the extent unsecured	1.03	0.93	0.86
Allowances for loans losses as a percentage of:			
Total loans	**2.42**	**2.09**	**2.07**
Total past due	**202.25**	**202.76**	**213.24**
Total past due unsecured	**234.69%**	**224.58%**	**239.08%**

(1) For periods prior to 2011 individually evaluated loans are considered substandard when they are classified into categories C1 to D2, and group-evaluated loans are considered substandard when they are assigned allowances for loan losses higher than 20%. For periods after 2011, the impaired portfolio is composed of all credits of debtors classified in some category of Non-complying Loans , as well as in categories B3 and B4 of Substandard Portfolio , all of them subject to individual assessment. This portfolio also includes all group-evaluated debtors who are in the non-complying loans category.

(2) Security generally consists of mortgages on real estate, pledges of marketable securities, letters of credit or cash.

Analysis of Allowances for Loan Losses

The following table analyzes our allowances for loan losses and changes in the allowances attributable to charge-offs, allowances established and allowances released:

	As of December 31,		
	2010	2011	2012
IFRS:	(in millions of Ch$, except percentages)		
Allowances for loan losses at beginning of period	Ch$ 312,101	Ch$ 348,027	Ch$ 362,741
Charge-offs	(149,093)	(177,960)	(182,733)
Allowances established	185,019	207,189	225,678
Allowances released[1]		(14,515)	(17,883)
Allowances for loan losses at end of period	Ch$ 348,027	Ch$ 362,741	Ch$ 387,803
Ratio of charge-offs to average loans	1.10%	1.12%	1.01%
Allowances for loan losses at end of period as a percentage of total loans	2.42%	2.09%	2.07%

(1) Represents the aggregate amount of allowances for loan losses released during the year as a result of charge-offs, recoveries or a determination by management that the level of risk existing in the loan portfolio has been reduced.

Table of Contents

For allowance for loan losses associated with impaired loans and with non-impaired loans, see Note 10 (c) to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report.

During 2010, the Chilean economy continued the upward trend that started at the end of 2009, which positively impacted the risk profiles of individuals and companies in Chile. Additionally, certain corporate customers improved their financial performance as a result of specific plans intended to overcome productive difficulties and an increase in the private consumption in Chile. Our allowances for loan losses grew by 11.5% from December 31, 2009 to December 31, 2010, which is in line with the annual growth posted by our total loan portfolio (particularly in the retail banking segment), our conservative risk approach. In addition, the annual increase in allowances for loan losses is consistent with lower charge-offs in 2010 as compared to 2009 and with provisions for loan losses established during 2010 in order to cover potential risks related to certain corporate customers.

The year ended December 31, 2011 was positive for the local economy. GDP recorded 6.0% annual growth, which resulted in improved economic figures, such as a four-year low unemployment rate (7.1%) and an increase in real salaries. These macroeconomic indicators boosted consumption and the commercial activity of companies, all of which resulted in improved risk profiles of both individuals and companies. However, due to a volume effect associated with the significant 21.2% expansion of our loan book, our allowances for loan losses recorded a 4.2% increase, from Ch$348,027 million in 2010 to Ch$362,741 million in 2011.

In 2012, the industry experienced at least two forces affecting allowances for loans losses. On the one hand, the positive economic cycle resulted in lower unemployment and increasing real salaries, which positively impacted customers payment capacity. However, in the first half of the year, social and regulatory issues effectively offset the positive economic drivers and caused a moderate deterioration in credit quality, especially associated with consumer loans, with past-due loan indicators peaking in the second quarter of 2012. This phenomenon was observed across the industry and led other banks and us to be more conservative in provisioning loans and focus on collections. Although, credit quality conditions and customers payment behavior normalized by the end of the year, the growth in total loans and our higher penetration of the retail banking segment translated into a 6.9% annual increase in allowances for loan losses, from Ch$362,741 million in 2011 to Ch$387,803 million in 2012.

Loans are written-off when the collection efforts have been exhausted but not later than the maximum periods as follows:

Type of Loan	Term
Consumer loans with or without collateral	6 months
Other transactions without collateral	24 months
Commercial loans with collateral	36 months
Residential mortgage loans	48 months
Consumer leases	6 months
Other non-real estate lease transactions	12 months
Real estate leases (commercial or residential)	36 months

The following table presents detailed information on write-offs and shows the charge-offs breakdown by loan category:

	Year ended December 31,		
	2010	2011	2012
IFRS:		(in millions of Ch$)	
Commercial loans	Ch$ 46,419	Ch$ 82,086	Ch$ 43,164
Mortgage loans	2,376	2,923	4,253
Consumer loans	100,298	92,951	135,316
Total	**Ch$ 149,093**	**Ch$ 177,960**	**Ch$ 182,733**

Table of Contents

Loan recoveries by type of loan are shown in the table below:

IFRS:	2010	2011	2012
	Year ended December 31, (in millions of Ch$)		
Commercial loans	Ch$ 11,127	Ch$ 16,014	Ch$ 14,892
Mortgage loans	1,387	1,106	1,971
Consumer loans	19,609	28,445	24,099
Subtotal	32,123	45,565	40,962
Recoveries and sales of loans reacquired from the Central Bank	46	90	
Total	**Ch$ 32,169**	**Ch$ 45,655**	**Ch$ 40,962**

The following tables classify our loan portfolio based on the borrower s payment performance for each of the last three years:

IFRS:	Commercial Loans	Consumer Loans	Mortgage Loans	Total
	Year ended December 31, 2010 (in millions of Ch$)			
Total Past due after 90 days but less than 6 months	Ch$ 33,889	Ch$ 29,257	Ch$ 16,671	Ch$ 79,817
Total Past due after 6 months within 12 months	28,503		9,754	38,257
Total Past due 12 months within 24 months	33,073		8,689	41,762
Total Past due 24 months within 36 months	5,920		4,435	10,255
Total Past due 36 months within 48 months			1,984	1,984
Total Past Due	**Ch$ 101,385**	**Ch$ 29,257**	**Ch$ 41,433**	**Ch$ 172,075**

IFRS:	Commercial Loans	Consumer Loans	Mortgage Loans	Total
	Year ended December 31, 2011 (in millions of Ch$)			
Total Past due after 90 days but less than 6 months	Ch$ 41,729	Ch$ 38,825	Ch$ 15,367	Ch$ 95,921
Total Past due after 6 months within 12 months	22,837		8,588	31,425
Total Past due 12 months within 24 months	30,982		6,487	37,469
Total Past due 24 months within 36 months	6,847		4,079	10,926
Total Past due 36 months within 48 months			3,164	3,164
Total Past Due	**Ch$ 102,395**	**Ch$ 38,825**	**Ch$ 37,685**	**Ch$ 178,905**

IFRS:	Commercial Loans	Consumer Loans	Mortgage Loans	Total
	Year ended December 31, 2012 (in millions of Ch$)			

Total Past due after 90 days but less than 6 months	Ch$ 34,410	Ch$ 44,093	Ch$ 11,934	Ch$ 90,437
Total Past due after 6 months within 12 months	31,497	14	6,017	37,528
Total Past due 12 months within 24 months	35,547	2	6,729	42,278
Total Past due 24 months within 36 months	5,936		3,783	9,719
Total Past due 36 months within 48 months			1,901	1,901
Total Past Due	**Ch$ 107,390**	**Ch$ 44,109**	**Ch$ 30,364**	**Ch$ 181,863**

Table of Contents

Allocation of Allowances for Loan Losses

The following tables set forth the proportions of our required allowances for loan losses attributable to our commercial, consumer and residential mortgage loans under IFRS as of the dates indicated.

	As of December 31, 2010				As of December 31, 2011			
	Allowance amount	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans(1)	Allowance amount	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans(1)
IFRS:	(in millions of Ch$, except percentages)							
Commercial loans	Ch$ 211,558	2.28%	1.47%	64.66%	Ch$ 208,249	1.85%	1.19%	64.58%
Consumer loans	121,195	5.63	0.84	14.98	138,588	5.40	0.80	14.72
Residential mortgage loans	15,274	0.52	0.11	20.36	15,904	0.44	0.09	20.70
Total allocated allowances	**Ch$ 348,027**	**2.42%**	**2.42%**	**100.00%**	**Ch$ 362,741**	**2.08%**	**2.08%**	**100.00%**

	As of December 31, 2012			
	Allowance amount	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans(1)
IFRS:	(in millions of Ch$, except percentages)			
Commercial loans	Ch$ 207,676	1.77%	1.11%	62.55%
Consumer loans	164,047	5.79	0.87	15.08
Residential mortgage loans	16,080	0.38	0.09	22.37
Total allocated allowances	**Ch$ 387,803**	**2.07%**	**2.07%**	**100.00%**

(1) Based on our loan classification.

The following table sets forth our charge-offs for 2010, 2011 and 2012 by major economic sector and provides further detail of charge-offs that have already been described in the previous discussion of allowances for loan losses:

	Year Ended December 31,		
	2010	2011	2012
IFRS:	(in millions of Ch$)		
Commercial:			
Agriculture	Ch$ 3,177	Ch$ 5,208	Ch$ 2 ,986
Mining	461	606	812
Manufacturing	7,956	3,807	5,143
Construction	6,159	3,330	3,161

Commerce	12,960	52,057	9,228
Transport	3,786	2,132	2,287
Financial services	6,140	9,799	5,637
Community	5,780	5,147	13,910
Subtotal:	Ch$ 46,419	Ch$ 82,086	Ch$ 43,164
Consumer loans	100,298	92,951	135,316
Mortgage loans	2,376	2,923	4,253
Total	**Ch$ 149,093**	**Ch$ 177,960**	**Ch$ 182,733**

Table of Contents

Composition of Deposits and Other Commitments

The following table sets forth under IFRS the composition of our deposits and similar commitments as of the dates indicated. See Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities for the average rate paid on each of the following deposit categories.

	As of December 31,		
	2010	2011	2012
IFRS:		(in millions of Ch$)	
Current accounts	Ch$ 3,611,894	Ch$ 3,968,504	Ch$ 4,495,135
Other demand deposits	834,287	926,922	975,836
Savings accounts	173,404	177,900	179,464
Time deposits	7,497,073	9,081,336	9,370,063
Other term balance payables	27,491	23,088	63,423
Total	**Ch$ 12,144,149**	**Ch$ 14,177,750**	**Ch$ 15,083,921**

Maturity of Deposits

The following table sets forth under IFRS information regarding the currency and maturity of our deposits at December 31, 2012, expressed in percentages. UF-denominated deposits are similar to Chilean peso-denominated deposits in all aspects, except that the principal is readjusted periodically based on the value of the UF.

	As of December 31, 2012			
	Ch$	UF	Foreign Currency	Total
		(in millions of Ch$)		
IFRS:				
Demand deposits	Ch$ 4.803.858	Ch$ 28.395	Ch$ 638,716	Ch$ 5,470,969
Savings accounts		179,466		179,466
Time deposits:				
Maturing within three months	4,712,220	720,526	756,178	6,188,924
Maturing after three but within six months	847,921	450,448	59,637	1,358,006
Maturing after six but within 12 months	869,965	590,840	27,798	1,488,603
Maturing after 12 months	95,716	301,037	1,200	397,953
Total time deposits	**6,525,822**	**2,062,851**	**844,813**	**9,433,486**
Total deposits	**Ch$ 11,329,680**	Ch$ **2,270,712**	Ch$ **1,483,529**	Ch$ **15,083,921**

The following table sets forth information under IFRS regarding the currency and maturity of deposits in excess of U.S.$100,000 as of December 31, 2012.

	As of December 31, 2012			
	Ch$	UF	Foreign Currency	Total
		(in millions of Ch$)		
IFRS:				

Demand deposits	42.40%	1.25%	43.06%	36.27%
Savings accounts		7.90		1.19
Time deposits:				
Maturing within three months	41.59	31.73	50.97	41.03
Maturing after three but within six months	7.48	19.84	4.02	9.00
Maturing after six but within 12 months	7.68	26.02	1.87	9.87
Maturing after 12 months	0.85	13.26	0.08	2.64
Total time deposits	57.60	90.85	56.94	62.54
Total deposits	100.00%	100.00%	100.00%	100.00%

Table of Contents

Minimum Capital Requirements

The following table sets forth our minimum capital requirements set by the Superintendency of Banks as of the dates indicated:

	As of December 31,		
	2010	2011	2012
CHILEAN GAAP:		(in millions of Ch$)	
Banco de Chile s regulatory capital	Ch$ 1,404,125	Ch$ 1,739,173	Ch$ 2,007,573
Minimum regulatory capital required	(638,684)	(761,362)	(821,418)
Excess over minimum regulatory capital required	Ch$ 765,441	Ch$ 977,811	Ch$ 1,186,155

Short-Term Borrowings

The principal categories of our short-term borrowings are amounts borrowed under foreign trade lines of credit, domestic inter-bank loans and repurchase agreements. The table below presents under IFRS the amounts outstanding and the weighted average nominal interest rate for each period indicated by type of short-term borrowing.

	For the year ended December 31,					
	2010		2011		2012	
IFRS:	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate
			(in millions of Ch$, except rate data)			
Payables from repurchase agreements and security lending	Ch$ 81,755	2.46%	Ch$ 223,202	4.86%	Ch$ 226,396	6.62%
Borrowings from domestic financial institutions						
Foreign borrowings	1,281,292	1.37	1,668,084	1.29	1,108,662	1.90
Other obligations	111,558		123,051		106,538	
Total short-term borrowings	**Ch$ 1,474,605**	**1.33%**	**Ch$ 2,014,337**	**1.61%**	**Ch$ 1,441,596**	**2.50%**

The following table shows the average balance and the weighted average nominal rate for each short-term borrowing category during the periods indicated:

	For the year ended December 31,					
	2010		2011		2012	
IFRS:	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate
			(in millions of Ch$, except rate data)			
Payables from repurchase agreements and security lending	Ch$ 182,956	1.10%	Ch$ 218,847	4.96%	Ch$ 286,944	5.22%
Central Bank borrowings	77	1.34	69		36	
Borrowings from domestic financial institutions	61,109	1.98	73,590	3.06	34,702	3.52

Sub-total	Ch$ 244,142	1.32%	Ch$ 292,506	4.48%	321,682	5.04
Foreign borrowings	1,240,088	1.42	1,600,479	1.35	1,388,253	1.52
Total short-term borrowings	**Ch$ 1,484,230**	**1.40%**	**Ch$ 1,892,985**	**1.83%**	**Ch$ 1,709,935**	**2.18%**

89

Table of Contents

The following table presents the maximum month-end balances of our principal sources of short-term borrowings during the periods indicated:

IFRS:	Maximum 2010 month-end balance	Maximum 2011 month-end balance (in millions of Ch$)	Maximum 2012 month-end balance
Investments sold under agreements to repurchase	Ch$ 320,613	Ch$ 321,956	Ch$ 310,616
Central Bank borrowings	125,268	98,865	60
Borrowings from domestic financial institutions	250,215	126,055	5,000
Foreign borrowings	Ch$ 1,528,988	Ch$ 1,914,290	Ch$ 1,735,573

Item 4B Unresolved Staff Comments

None.

Table of Contents

Item 5 Operating and Financial Review and Prospects

OPERATING RESULTS

Introduction

The following discussion should be read in conjunction with, and is entirely qualified by reference to, our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report and Item 4. Information on the Company Selected Statistical Information. Certain amounts (including percentage amounts) that appear in this annual report may not total due to rounding.

We prepare our audited consolidated financial statements in accordance with IFRS as issued by the IASB.

Until and including our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2008, we prepared our audited consolidated financial statements in accordance with Chilean GAAP, with reconciliations to U.S. GAAP. As required by IFRS 1 *First Time Adoption of International Financial Reporting Standards*, our financial position as of December 31, 2008 and our results of operations for the year ended December 31, 2008 were restated in accordance with IFRS 1 for comparative purposes. Reconciliations and description of the transition to IFRS, and the effects on assets, liabilities, equity, net income and cash flows are presented in Note 5 to our audited consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2009 filed with the SEC on June 29, 2010. Unless otherwise indicated, the financial information included in this annual report with respect to 2010, 2011 and 2012 has been derived from financial statements that were prepared in accordance with IFRS. See Note 2(a) to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report. IFRS differs in certain significant respects from Chilean GAAP. As a result, our financial information presented under IFRS is not directly comparable to any of our financial information presented under Chilean GAAP. Accordingly, readers should avoid such comparison.

Overview

We are a leading bank within the Chilean financial system, providing a broad range of financial products and services to individual and corporate customers who are primarily located in Chile. Accordingly, our financial condition, results of operations and our ability to achieve our strategic business goals could be adversely affected by changes in Chile s economic conditions and the resulting effects on macroeconomic indicators (such as interest rates, inflation and GDP growth, among others), modifications of non-economic policies implemented by the Chilean government that can affect private sector activities, or other political and economic developments in Chile, as well as regulatory changes or administrative practices of Chilean authorities. Future changes in the Chilean economy may impair our ability to proceed with our strategic business plan. Our financial condition and results of operations could also be adversely affected by changes in economic or other policies of the Chilean government, which has exercised and continues to exercise substantial influence over many aspects of the private sector, or other political and economic developments in Chile, as well as regulatory changes or administrative practices of Chilean authorities, over which we have no control. See Item 3. Key Information Risk Factors Risks Relating to Chile Inflation could adversely affect the value of our ADSs and financial condition and results of operations and Item 3. Key Information Risk Factors Risks Relating to Chile Our growth and profitability depend on the level of economic activity in Chile.

After a period of accelerated growth between 1985 and 1997, when Chile s gross domestic product grew at an average annual rate of 6.8%, Chile s economic growth slowed to an average rate of 4.7% between 2000 and 2008. Since 2008 the Chilean economy has faced difficult and volatile circumstances, ranging from a global economic slowdown caused by the United States subprime mortgage crisis, to the worst earthquake reported in over 50 years in Chile. However, the country has been able to cope with this challenging environment and maintain sustained growth, with annual GDP expansion rates of 5.8% for 2010 and 5.9% for 2011. Thus, based on its stable financial condition that is supported by an independently managed Central Bank, accumulated international reserves, well-diversified international trade and an internationally recognized responsible fiscal policy, the country has been able to overcome these challenges and achieve outstanding economic growth amid a global economy that is still coping with recession and high unemployment, especially in developed countries.

Table of Contents

During 2012, the Chilean economy maintained an expansion rate of approximately 5.6%, which was consistent with 5.8% and 5.9% for 2010 and 2011, respectively. Economic growth in Chile was also reflected in the 7.1% increase in aggregate demand due to strong private consumption and investment.

Private consumption in Chile also recorded a 6.1% annual growth that was supported by positive predictions for the economy s outlook related to indicators linked to the labor market, such as an historical low unemployment rate that averaged 6.4% in 2012 and a 4.7% annual increase in real wages.

Similarly, investment posted an unexpectedly high growth rate of 12.3% in 2012. This expansion is especially remarkable, since investment is sensitive to global instabilities and reflects entrepreneurs business sentiment. Conversely, the main fundamentals that upheld this annual growth were investment in construction, as well as in machinery and equipment, all of which showed significant resilience. Whereas the former posted an annual increase of 9.0% and was mainly associated with the dynamism observed in the local real estate sector, the latter recorded 17.4% annual growth that was supported by positive business sentiment of companies and increasing investment projects in the mining and energy sectors.

Despite the important expansion in aggregate demand, inflation remained under control by recording a 1.5% annual increase, which was below preliminary market expectations and also under the Central Bank s mid-term goal range. It also represented the lowest figure since the deflation observed in 2009. This unexpected moderate increase in prices took place in spite of the positive variation in seven out of the twelve categories that compose the CPI basket, especially in food. Nevertheless, prices associated with transportation declined, mainly due to the decrease in international oil prices. The latter was supplemented by decreases in clothing, utilities, and entertainment and culture prices.

As a result, based on tempered inflation and a weak external environment, the Chilean Central Bank maintained a neutral bias in policy actions during 2012 by keeping the monetary policy interest rate unchanged at 5.0% throughout the whole year. The Central Bank s assessment about the Chilean economy was positive, in general, though it recognized some concerns regarding financial instabilities and the economic slowdown globally. Also, the Central Bank stated that, despite low inflation, the local economy evolved according to mid-term trends and a dynamic labor market. As of April 15, 2013 the monetary policy interest rate was 5.0%

As for the stock market, 2012 was not a very positive year. In fact, based on persistent global instabilities and low returns that led investors to seek alternative investments, such as the real estate sector, the IPSA index only advanced by 3.0% annually and closed 2012 slightly above 4,300 points. As of April 15, 2013 the IPSA index was at 4,230 points.

Inflation

Historically, Chile has experienced high levels of inflation that have significantly affected our financial condition and results of operations. Over the last three years, inflation has been conditioned on local economic dynamics. In fact, due to the slowdown in the global and local economy, during 2009 inflation turned negative and closed the year with a deflation of 1.4%. Conversely, throughout 2010, inflation returned to more normal levels and was within the long-term range of 2.0% to 4.0% per year targeted by the Central Bank, ending the year at 3.0%. After that, stimulative economic activity led by private consumption and high international prices of oil and food fostered inflation of 4.4% in 2011. During the year ended December 31, 2012, inflation was 1.5%, as measured by the CPI published by the Chilean National Statistics Institute. This figure was below initial expectations and it was mainly explained by a decrease in international oil prices that translated into lower local prices for transportation and utilities. Decreasing prices in these sectors more than offset higher food prices.

An increase in inflation rates could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. Our results of operations reflect the effect of inflation in the following ways:

- a substantial portion of our assets and liabilities are denominated in UFs, a unit that is indexed daily to reflect inflation recorded in the previous month, with the net gain or loss resulting from such indexation reflected in income; and

- the interest rates earned and paid on peso-denominated assets and liabilities to some degree reflect inflation and expectations regarding inflation.

Table of Contents

UF-Denominated Assets and Liabilities. The UF is revalued in monthly cycles. On each day in the period beginning the tenth day of the current month through the ninth day of the next month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect each day a pro rata amount of the prior calendar month s change in the CPI as published by the Chilean National Statistics Institute. One UF was equal to Ch$22,294.03 as of December 31, 2011 and Ch$22,840.75 as of December 31, 2012. The effect of any changes in the nominal peso value of our UF-denominated assets and liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest revenue and expense. Our net interest income will be positively affected by inflation (and negatively affected by deflation) to the extent that our average UF-denominated assets exceed our average UF-denominated liabilities, while our net interest income will be negatively affected by inflation (and positively affected by deflation) when average UF-denominated liabilities exceed our average UF-denominated assets. Our average UF-denominated assets exceeded our average UF-denominated liabilities by Ch$3,447,229 million (U.S.$6,634.84 million) during the year ended December 31, 2011 and Ch$3,900,986 million (U.S.$8,136.04 million) as of December 31, 2012. These figures exclude capital, reserves and derivatives. See Item 4. Information on the Company Selected Statistical Information.

Peso-Denominated Assets and Liabilities. Interest rates in Chile tend to reflect the rate of inflation during the relevant period and expectations regarding future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to the inflation rate varies. See Interest Rates. We maintain a substantial amount of non-interest bearing, peso-denominated current accounts and other demand deposits. The ratio of such deposits to average interest bearing peso-denominated liabilities was 64% during the year ended December 31, 2011 and 62% during the year ended December 31, 2012. Since a large part of such deposits are not indexed to inflation, even a slight decline in the rate of inflation may adversely affect our net interest margin on assets funded with such deposits and even a slight increase in the rate of inflation may increase the net interest margin on such assets. See Item 4. Information on the Company Selected Statistical Information Interest Earning Assets and Net Interest Margin.

Interest Rates

Interest rates earned and paid on our assets and liabilities reflect in part, inflation and expectations regarding future inflation, shifts in short-term interest rates related to the Central Bank s monetary policies and movements in long-term real rates. The Central Bank manages short-term interest rates based on its objectives of balancing low inflation and economic growth. As a consequence of strong recovery signs for the economic activity and the more normalized inflationary environment, the Central Bank began to withdraw the monetary stimulus in June 2010, when it increased the monetary policy annual interest rate to 1.00% from the 0.5% maintained during the first half of that year. Since June 2010, the Central Bank has repeatedly raised the monetary policy interest rate, ending 2011 at 5.25% from the 3.25% recorded in December 2010. Nevertheless, as a consequence of the tempered global slowdown during the last quarter of 2011 and the uncertainty regarding the fiscal condition of some developed countries, the Chilean Central Bank decided to lower the reference interest rate by 0.25% on January 12, 2012.

Similarly, based on low inflation, increasing real wages and low unemployment, that resulted in higher than expected economic activity, the Chilean Central Bank decided to maintain the monetary policy interest rate steady at 5.00% during all of 2012. As of April 15, 2013 the monetary policy interest rate was 5.0%.

Since our liabilities generally re-price faster than our assets, changes in the rate of inflation or short-term interest rates are reflected in the interest rates we pay on our liabilities before they are reflected in the interest rates we earn on our assets. Accordingly, our net interest margin on assets and liabilities is usually adversely affected in the short-term by increases in inflation or short-term interest rates and benefits in the short-term from decreases in inflation or short-term interest rates, although the existence of non-interest bearing peso-denominated demand deposits tends to mitigate both effects. See Inflation Peso-Denominated Assets and Liabilities. In addition, because our peso-denominated liabilities have relatively short re-pricing periods, those liabilities generally are more sensitive to changes in inflation or short-term interest rates than our UF-denominated liabilities. As a result, during periods when current inflation exceeds the previous month s inflation, customers often switch funds from peso-denominated deposits to more expensive UF-denominated deposits, thereby adversely affecting our net interest margin.

Table of Contents

According to information published by the Central Bank, the average annual short-term nominal interest rate, based on the rate paid by Chilean financial institutions for 90 to 360-day Chilean peso-denominated deposits, was 5.61% in 2011 and 5.90% in 2012. The average annual long-term nominal interest rate, based on the interest rate of the Central Bank s five-year Chilean peso-denominated bonds, was 5.67% in 2011 and 5.26% in 2012.

Foreign Currency Exchange Rates

A significant portion of our assets and liabilities are denominated in foreign currencies, principally U.S. dollars, and we have historically maintained and may continue to maintain gaps between the balances of such assets and liabilities. This gap includes assets and liabilities denominated in foreign currencies and assets and liabilities denominated in Chilean pesos that contain repayment terms linked to changes in foreign currency exchange rates. Because foreign currency denominated assets and liabilities, as well as interest earned or paid on such assets and liabilities and gains (losses) realized upon the sale of such assets, are translated into pesos in preparing our audited consolidated financial statements, our reported income is affected by changes in the value of the peso with respect to foreign currencies, primarily the U.S. dollar. Adjustments to U.S. dollar-indexed assets are reflected as adjustments in net interest earnings and offset results in our foreign exchange position.

Critical Accounting Policies

We prepare our audited consolidated financial statements in accordance with IFRS as issued by the IASB. The notes to our audited consolidated financial statements as of and for the year ended December 31, 2012, which are included in this annual report, contain a summary of our significant accounting policies.

The preparation of financial statements under IFRS requires management to make certain estimates and assumptions, as some of the amounts reported in the financial statements are related to matters that are inherently uncertain. These estimates could change from period to period, which may have a material impact on our financial condition or results of operations. Actual results may differ if conditions or underlying circumstances were to change.

The following discussion describes those areas that require considerable management judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial situation and results of operations.

Allowances for Loan Losses

Determining accounting estimates and judgments related to the impairment of loans and provision for off-balance sheet positions is a critical process for us because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect our results of operations.

As part of this process, we first assess whether objective evidence of impairment exists for loans that are individually significant. The decision as to whether loans are individually significant or not is based on fixed criteria specified by management. The determination of these criteria involves management s judgment and is regularly reviewed for adequacy. After this assessment, we assess collectively for loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment under the individual assessment.

The determination of the impairment allowance required for loans that are deemed to be individually significant often requires the use of considerable judgment by management on economic conditions, the financial performance of the customer and the value of collateral, for which there may not be a readily accessible market. To allow management to determine if a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as if the counterparty is experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

From the information gathered in the process described above, we estimate the future cash flows expected to flow to the entity considering the losses already incurred. The actual amount and timing of future cash flows may differ from the estimates used by management and consequently may cause actual losses to differ from the reported allowances. We utilize back testing techniques in order to optimize our models and minimize such adjustments.

The collective impairment allowance is calculated on a portfolio basis using statistical models which incorporate various estimates and judgments. In order to constantly monitor and increase the quality of such estimations of future cash flows, we regularly review our statistical models and the underlying data and assumptions. Among other factors, the probability of defaults and loss recovery rates are taken into account during this review.

The collective impairment allowance has two components.

The first component is an allowance amount representing the incurred losses on the portfolio of smaller balance homogeneous loans, which are loans to individuals and small business customers of the retail business segment. The loans are grouped according to similar credit risk characteristics and the allowance for each group is determined using statistical models based on historical experience.

The second component represents an estimate of incurred losses inherent in the group of loans that have not yet been individually identified as impaired or measured as part of the smaller-balance homogeneous loans. We use historical loss experience for these estimates. This historical loss experience is adjusted on the basis of actual observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from period to period (e.g., changes in unemployment rates, property prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude).

For a further description of our policy regarding allowances for loan losses, see note 2(h) to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report.

Impairment of Other Financial Instruments

Equity method investments and financial assets classified as available for sale are evaluated for impairment throughout the year and at each reporting date in order to assess whether events or changes in circumstances indicate that these assets are impaired. If there is objective evidence of an impairment of an asset, an impairment test is performed by comparing the investments recoverable amount, which is the higher of its value in use and fair value less costs to sell, with its carrying amount.

In the case of equity investments classified as available for sale, objective evidence of impairment would include a significant or prolonged decline in fair value of the investment below cost. It could also include specific conditions in an industry or geographical area or specific information regarding the financial condition of the company, such as a credit rating downgrade. In the case of debt securities classified as available for sale, impairment is assessed based on the same criteria as for loans.

If information becomes available after we make our evaluation, we may be required to recognize impairment in the future. Because the estimate for impairment could change from period to period based upon future events that may or may not occur, we consider this to be a critical accounting estimate.

Fair Value Estimates for Financial Assets and Liabilities

International Accounting Standard (IAS) 39.9 defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm s length transaction. We use valuation techniques to establish the fair value of instruments in cases where prices quoted in active markets are not available. The chosen valuation technique makes maximum use of observable market data, relies as little as possible on estimates performed by us, incorporates factors that market participants would consider in setting a price and is consistent with accepted methodologies for pricing financial instruments. Where possible, parameter inputs used in valuation techniques are based on observable data derived from prices of relevant instruments traded in an active market.

Table of Contents

Inputs used in valuation techniques represent reasonable market expectations and include risk and return factors that are inherent to the financial instrument. Periodically, we calibrate our valuation techniques and test them for validity using prices from observable current market transactions over the same instrument or based on any available observable market data.

In reaching estimates of fair value, significant management judgment may be required. The level of management judgment required to establish fair value of financial instruments for which there is a quoted price in an active market is minimal. Similarly, there is little subjectivity or judgment required for instruments valued using valuation models that are standard across the industry and where all parameter inputs are quoted in active markets. However, the level of subjectivity and, therefore, the degree of management judgment required, is more significant for those instruments valued using specialized models and those where some or all of the parameter inputs are not observable. In our fair value hierarchy, these financial instruments are classified as level 3. These instruments are valued based on quoted prices for similar instruments, which require adjustments or significant unobservable assumptions to reflect the differences between such similar instruments and the ones valued. For a further description of our internal fair value classification, see note 39 to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report.

Management judgment is required in the selection and application of appropriate parameters, assumptions and modeling techniques. In cases where different valuation techniques indicate a range of possible fair values for an instrument, management must determine what point within the range of estimates best represents fair value. Furthermore, some valuation adjustments may require the exercise of management judgment to ensure fair value is reached.

Revenue Recognition

Interest revenue and expenses are recognized in the income statement using the effective interest rate method set forth in IAS 39. To calculate the effective interest rate, we estimate future cash flows by taking into account all contractual conditions of the financial instrument, excluding future credit losses. The estimation of such future cash flows requires management judgment to some degree. In addition, the analysis of contractual conditions and other components (such as transaction costs) for purposes of determining the effective interest rate involves making estimates of possibly incurred but not recognized credit losses. See Allowances for loan losses.

Income and expenses from fees and commissions are recognized in the consolidated income using different criteria based on the nature of the income or expense in accordance with IAS 18 and IAS 39. Fees earned from transactions or services provided over a longer period of time are recognized over the life of the transactions or services. The revenue recognition of fees from such transactions requires management judgment to some degree. Due to the nature of business from which we derive fees and commissions (e.g., asset management, custody of assets), the required degree of estimation is small.

Deferred Tax Assets

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements. Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be recognized. This assessment requires significant management judgments and assumptions. In order to estimate the recoverability of deferred tax assets, we consider historical tax capacity and profitability information, as well as forecasted operating results and other relevant considerations.

Legal and Regulatory Contingencies and Tax Risks

Legal claims, regulatory proceedings and income tax provisions for uncertain tax positions may occur. The use of estimates is important in determining provisions for potential losses that may arise from such events. We estimate and provide for potential losses that may arise from litigation, regulatory proceedings and uncertain income tax positions to the extent that such losses are possible and can be estimated, in accordance with IAS 37

(Provisions, Contingent Liabilities and Contingent Assets) and IAS 12 (Income Taxes). Significant judgment is required in making these estimates and our actual liabilities may ultimately be materially different. Contingencies in respect of legal matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

Our total liability with respect to litigation, arbitration and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case, our experience and the experience of others in similar cases, and the opinions and views of legal counsel. Predicting the outcome of our litigation matters is inherently difficult, particularly in cases in which claimants seek substantial or indeterminate damages.

Results of Operations for the Year Ended December 31, 2010, 2011 and 2012

The consolidated financial information presented in this section for years ended December 31, 2010, 2011 and 2012 has been audited and prepared in accordance with IFRS. In addition, to the extent that it is available and is useful in analyzing our results, we have included information broken down by the business segments that we use for internal reporting purposes. As mentioned earlier, information about our business segments is reported under our internal reporting policies that differ in some extent from IFRS.

Net Income

The following table sets forth the principal components of our net income, as detailed in our audited consolidated financial statements for the years ended December 31, 2010, 2011 and 2012:

IFRS:	For the Year Ended December 31, 2010	2011	2012	% Increase (Decrease) 2010/2011	2011/2012
	(in millions of Ch$, except percentages)				
Net interest income	767,626	877,475	964,137	14.3%	9.9%
Net fees and commissions income	292,262	308,773	307,257	5.6	(0.5)
Other income (loss), net	104,509	74,863	72,222	(28.4)	(3.5)
Provisions for loan losses	(157,651)	(146,925)	(166,420)	(6.8)	13.3
Operating expenses	(544,227)	(613,611)	(635,119)	12.7	3.5
Income attributable to associates	1,609	3,054	(468)	89.8	
Income before income taxes	464,128	503,629	541,609	8.5	7.5
Income taxes	(46,513)	(65,442)	(63,488)	40.7	(3.0)
Net income	417,615	438,187	478,121	4.9%	9.1%

2011 and 2012. Our net income was Ch$478,121 million in 2012, which represents an 9.1% increase over the figure recorded a year earlier. Our net income for 2012 represents a historical record for us, which is especially notable in light of the low inflationary environment observed in 2012 and its effect on our net asset position indexed to inflation. The main drivers that influenced the net income increase were, as follows:

Strong annual growth in our loan book, especially in the more profitable segments, such as individual (personal) and SME banking. Overall, the average balance of total loans increased 13.5% in 2012, which was composed of 17.1% and 10.5% increases in the average balances of total loans in our retail (individuals and SMEs) and wholesale (large companies and corporations) banking segments, respectively. The annual expansion in the average balance of total loans was also accompanied by a slight increase in lending spreads.

Our leading market position in non-interest bearing current accounts and demand deposits, reflected in a 10.5% annual increase in average balances, was supplemented by nominal interest rates that were slightly above 2011 figures due to a monetary policy interest rate that averaged 5.0% in 2012 as compared to an average of 4.7% in 2011. All in all, income attributable to this funding source increased in 2012 when compared to 2011.

A decrease in income taxes due to the tax benefits associated with deferred taxes that were caused by the tax reform passed in 2012. This reform increased the Chilean corporate tax rate that was originally set at 18.5% for 2012 (and 17.0% from 2013) to 20.0% for 2012 and thereafter. This resulted in a one-time positive effect of approximately Ch$9,029 million in deferred taxes.

Higher revenues from trading in fixed-income and derivative securities, which allowed as to offset lower income from the management of our available-for-sale portfolio.

Table of Contents

The drivers behind the increase in net income also effectively offset some of the negative forces that affected our business operations in 2012, including: (i) inflation that remained below market expectations and CPI variation in 2011, which negatively impacted the contribution to our UF net asset position, (ii) a flattened yield curve that reduced the possibilities of term spread arbitrage (term gapping), (iii) a 13.3% increase in provisions for loan losses due to the loan book expansion, particularly in the retail banking segment, and a moderate deterioration in credit quality across the industry, especially during the first half of 2012, and (iv) a 0.5% drop in fees and commissions, which nevertheless continued to be a stable source of revenues, primarily based on fee income from core business items that allowed us to offset a decrease in fees from specialized services during 2012.

2010 and 2011. Our net income increased 4.9% annual increase, which was the result of:

- Our market leading position in non-interest bearing liabilities, such as current accounts and demand deposits, that, along with higher nominal interest rates as compared to 2010, translated into a contribution from assets funded with these kinds of liabilities.

- An outstanding commercial performance that is reflected by our average balance of total loans that amounted to Ch$15,901 billion in 2011, which represents a yearly growth of 17.3%. This significant increase enabled us to more than offset the lower lending spreads witnessed by the banking industry, which is in line with a local economy that showed a consistent growth especially during the first half of 2011 and lower credit risk levels.

- Net fees and commissions that grew by 5.6% on a yearly basis. Despite the moderate annual increase, this line item remains a significant revenue source, due to the significant contributions from our subsidiaries that provide our customers with specialized financial services, as well as our efforts intended to offer value-added financial products and services.

- Provisions for loan losses that recorded an annual decrease of 6.8%. This improvement in credit quality was spurred by better conditions in the local economy that positively impacted unemployment and real salary figures, all of which resulted in higher customer payment capacity. This macroeconomic scenario was supplemented by continuously improving credit processes, including better evaluation, approval, supervision and collection. It is important to mention that this annual decrease took place in spite of the significant growth recorded in total loans.

All of these factors were partly offset by higher operating expenses that were the result of increased personnel and administrative expenses. Whereas the former increased as a result of the collective bargaining process carried out by us and our unions, our administrative expenses increased as a consequence of higher outsourced sales force expenses, expenses associated with an enlarged and improved distribution network, additional IT and communication expenses and marketing initiatives put into practice in order to reinforce our market position and promote the launch of new products and services. In addition, the previously mentioned positive factors enabled us to offset a 28.4% annual decrease in other operating income, mostly associated with lower results from derivative contracts and reduced gains associated with our investment portfolio.

Net Interest Income

The tables included under the headings Interest Revenue and Interest Expense set forth information regarding our consolidated interest revenue and expenses and average interest earning assets and average interest bearing liabilities for the years ended December 31, 2010, 2011 and 2012. This information is derived from tables included elsewhere in this annual report under Item 4. Information on the Company Selected Statistical Information and is qualified in its entirety by reference to such information.

Table of Contents

IFRS:	For the Year Ended December 31, 2010	2011	2012	% Increase (Decrease) 2010/2011	2011/2012
	(in millions of Ch$, except percentages)			%	
Interest revenue	Ch$ 1,092,003	Ch$ 1,501,684	Ch$ 1,672,766	37.5%	11.4%
Interest expense	(324,377)	(624,209)	(708,629)	92.4	13.5
Net interest income	Ch$ 767,626	Ch$ 877,475	Ch$ 964,137	14.3%	9.9%
Net interest margin(1)(2)	4.87%	4.80%	4.68%		

(1) Net interest income divided by average interest-earning assets. The average balances for interest-earning assets, including interest readjustments, were calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries

(2) Net interest margin does not include the interest earned on trading securities, which is accounted for under Other Income (Loss) Net.

2011 and 2012. In 2012 our net interest income totaled Ch$964,137 million, which represented a 9.9% increase from Ch$877,475 million in 2011. This annual increment was largely supported by:

Average balance of our total loans that grew by 13.5% on an annual basis. This increase was primarily caused by average balances of retail banking segment loans that recorded a 17.1% annual expansion and, to a lesser extent, loans granted to our wholesale banking segment whose average balances went up by 10.5% in annual terms. This greater business scale, together with slightly higher lending spreads, translated into an increase in revenues from loans of approximately Ch$78,360 million in 2012 as compared to 2011.

Current accounts and demand deposits that continue to be an important and attractive funding source for our operations, based on average balances that increased 10.5% in 2012 and a monetary policy interest rate that remained at 5.0% in 2012 as compared to an average of 4.7% in 2011. These factors resulted in higher revenues from current accounts and demand deposits of approximately Ch$31,650 million in 2012 as compared to 2011.

The above-mentioned factors were strongly linked to our core business activities and allowed us to effectively offset the negative impact of lower inflation on the UF net asset position. In 2012, the contribution of our UF net asset position decreased Ch$34,960 million as compared to 2011, due to a combination of: (i) inflation that (measured as UF variation) increased 2.5% in comparison with 3.9% a year earlier, (ii) higher nominal interest rates in 2012 that translated into an increased funding cost for the portion of such assets that is financed with Chilean peso liabilities, and (iii) a positive effect associated with a reinforced capital base caused by both higher net income and the capital increase we undertook by the end of the year. In addition, flattened yield curves also contributed to a lower net interest income by reducing term gapping possibilities.

The 9.9% annual increase in net interest income, together with a proportionally higher annual increase of 12.7% in average interest earning assets, resulted in a slight annual decrease in our net interest margin (on average interest earning assets) from 4.80% in 2011 to 4.68% in 2012.

2010 and 2011. Our net interest income recorded a 14.3% annual increase, from Ch$767,626 million in 2010 to Ch$877,475 million in 2011. The main factors that supported this rise were:

Our leading market position in current accounts and demand deposits within a scenario of higher nominal interest rates. The combination of these factors enabled us to obtain a higher contribution approximately Ch$50,800 million as compared to 2010 from these non-interest bearing demand deposits that fund a significant portion of our interest-earning assets.

Higher inflation fostered by higher local aggregate demand and higher international commodity prices that resulted in a 3.9% UF variation in 2011 as compared to the 2.4% recorded in 2010. This issue, along with the proactive management of our UF net asset position, resulted in roughly Ch$24,800 million of additional income.

Higher demand for credit, prompted by a positive economic cycle. The high GDP growth recorded by the local economy, especially during the first half of 2011, translated into lower unemployment and growing real salaries. Under this scenario and also due to still attractive interest rates, individuals increased their consumption, while companies undertook investment projects that had been postponed as a consequence of the economic crisis. As a result, we achieved outstanding double-digit growth rates in commercial, residential mortgage, and consumer loans, which enabled us to more than offset the downward trend in lending spreads, in line with a highly competitive business environment and lower credit risk. The net effect of these factors translated into approximately an increase in income of Ch$17,800 million compared to 2010.

Interest Revenue

The following table sets forth information regarding our interest revenue and average interest earning assets for the years ended December 31, 2010, 2011 and 2012:

	For the Year Ended December 31,			% Increase (Decrease)	
	2010	2011	2012	2010/2011	2011/2012
IFRS:	(in millions of Ch$, except percentages)			%	
Interest revenue	Ch$ 1,092,003	Ch$ 1,501,684	Ch$ 1,672,766	37.5%	11.4%
Average interest earning assets:					
Commercial loans	8,863,082	10,332,183	11,476,946	16.6	11.1
Residential mortgage loans	2,698,384	3,233,830	3,924,080	19.8	21.3
Consumer loans	1,997,400	2,334,914	2,654,234	16.9	13.7
Total loans	13,558,866	15,900,927	18,055,260	17.3%	13.5%
Cash and due from banks	283,841	334,991	370,298	18.0	10.5
Repurchase agreements	74,471	85,087	42,109	14.3	(50.5)
Financial investments	1,519,808	1,562,251	1,748,349	2.8	11.9
Loans and advance to banks	339,844	393,579	381,578	15.8	(3.0)
Total	**Ch$ 15,776,830**	**Ch$ 18,276,835**	**Ch$ 20,597,594**	**15.8%**	**12.7%**
Average rates earned on total interest earning assets(1)(2):					
Average nominal rates	7.09%	8.31%	8.21%		

(1) See Item 4. Information on the Company Selected Statistical Information Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities.

(2) Average rates earned on interest earning assets do not include the interest earned on trading securities, which is accounted for under Other Income (Loss) Net.

2011 and 2012. The 11.4% annual increase in our interest revenue was mainly fostered by a 12.7% annual increase in average interest earning assets that, in turn, was primarily prompted by a 13.5% annual growth in the average balance of total loans, especially those associated with our retail banking segment (e.g. residential mortgage and consumer loans granted to individuals, as well as commercial loans granted to SMEs). These positive factors allowed us to effectively offset the negative effect of a 1.4% drop in the UF (from 3.9% in 2011 to 2.5% in 2012) that negatively impacted the contribution of our UF-denominated assets. On the whole, the yield of our average interest earning assets decreased 10 bp, from 8.31% in 2011 to 8.21% in 2012.

2010 and 2011. Our interest revenue recorded a significant 37.5% increase in 2011, which was principally due to: (i) higher nominal interest rates as a result of a higher reference interest rate that increased from 3.25% as of December 31, 2010 to 5.25% as of December 31, 2011 in line with the Central Bank s efforts to maintain inflation in the target range and (ii) a 15.8% yearly growth in our average interest earning assets, mainly fostered by the significant 17.3% annual rise posted by our average balance of total loans. These two factors allowed us to maintain an upward trend in the yield of our average interest earning assets, increasing from 7.09% in 2010 to 8.31% in 2011.

Table of Contents

Interest Expense

The following table sets forth information regarding our interest expense and average interest bearing liabilities for the years ended December 31, 2010, 2011 and 2012:

	For the Year Ended December 31,			% Increase (Decrease)	
	2010	**2011**	**2012**	**2010/2011**	**2011/2012**
IFRS:	(in millions of Ch$, except percentages)			%	
Interest expense	Ch$ 324,377	Ch$ 624,209	Ch$ 708,629	92.4%	13.5%
Average interest-bearing liabilities:					
Saving accounts and time deposits[(1)]	7,382,126	8,450,231	9,380,123	14.5	11.0
Securities under agreements to repurchase	182,956	218,847	286,944	19.6	31.1
Borrowings from financial institutions	1,365,835	1,715,417	1,435,362	25.6	(16.3)
Debt issued	1,660,440	1,994,679	2,838,170	20.1	42.3
Other financial obligations	132,200	168,858	170,977	27.7	1.3
Total	**Ch$ 10,723,557**	**Ch$ 12,548,032**	**Ch$ 14,111,576**	**17.0%**	**12.5%**
Average rates paid on total interest bearing liabilities[(2)]:					
Average nominal rates	3.03%	4.97%	5.02%		
Average (Chilean peso-denominated) non-interest bearing current account and demand deposits	4,085,800	4,540,335	4,926,475	11.1%	8.5%

(1) Includes interest-earning demand deposits.

(2) See Item 4. Information on the Company Selected Statistical Information Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities.

2011 and 2012. Our net interest expense recorded a 13.5% annual increase, from Ch$624,209 million in 2011 to Ch$708,629 million in 2012, which was higher than the increase experienced by our interest revenue. The increase in interest expense was mainly prompted by: (i) higher nominal interest rates paid by banks on short-term deposits in 2012 as compared to 2011 that were supplemented by an 11.0% annual increase in the average balances of savings accounts and time deposits, and (ii) a funding structure that has increasingly incorporated long-term funding sources, especially funds associated with international and local debt placements. As for the latter, our balance of debt issued went up 42.3% in 2012 as compared to 2011. All of the previously mentioned factors resulted in a 5 bp increase in cost of funding from interest bearing liabilities from 4.97% in 2011 to 5.02% in 2012.

2010 and 2011. Our interest expense recorded a 92.4% increase in 2011 as compared to 2010. This increase was the result of higher nominal interest rates in 2011 as compared to 2010, as well as an inflation that surpassed last year s figure, due to the improved aggregate demand that encouraged the Central Bank to gradually withdraw the monetary stimulus during the first half of 2011. These effects increased our cost of funding from interest bearing liabilities and were amplified by average interest bearing liabilities that recorded a 17.0% increase.

Table of Contents

Net Fees and Commissions Income

The following table sets forth certain components of our fees and commissions income (net of fees paid to third parties that provide support for those services) for the years ended December 31, 2010, 2011 and 2012:

	Year Ended December 31,			% Increase (Decrease)	
IFRS:	**2010**	**2011**	**2012**	**2010/2011**	**2011/2012**
	(in millions of Ch$, except percentages)				
Mutual funds	Ch$ 61,476	Ch$ 63,809	Ch$ 56,043	3.8%	(12.2)%
Insurance	49,170	59,171	60,481	20.3	2.2
Current accounts, overdrafts, credit lines and credit cards	72,392	76,121	81,427	5.2	7.0
Sight accounts and ATMs	21,225	26,028	28,521	22.6	9.6
Stock brokerage	23,752	21,246	10,236	(10.6)	(51.8)
Collection of over-due loans	17,870	18,144	20,670	1.5	13.9
Cash management services	13,715	13,746	14,443	0.2	5.1
Letters of credit, guarantees, collateral and other contingent loans	14,290	11,885	13,038	(16.8)	9.7
Custody and trust services	4,838	5,695	6,671	17.7	17.1
Foreign trade and currency exchange	4,971	5,387	6,005	8.4	11.5
Financial advisory services	4,800	3,186	3,955	(33.6)	24.1
Credits and factoring	5,932	4,476	4,562	(24.5)	1.9
Collection services	1,303	1,227	1,155	(5.8)	(5.9)
Teller services expenses	(2,054)	(1,020)	143	(50.3)	(114.0)
Credit pre-evaluation services	(1,821)	(2,613)	(2,223)	43.5	(14.9)
Other	403	2,285	2,130	467.0	(6.8)
Total	**Ch$ 292,262**	**Ch$ 308,773**	**Ch$ 307,257**	**5.6%**	**(0.5)%**

2011 and 2012. Our net fees and commissions experienced a slight 0.5% annual decrease, from Ch$308,773 million in 2011 to Ch$307,257 million in 2012. This line item has proven to be a stable source of operating revenue primarily based on fee income from our core and traditional business, which has enabled us to offset lower fee income from specialized financial services. The slight annual decrease in net fees and commissions is explained by:

A decrease in fees and commissions from activities related to specialized financial services, such as securities brokerage and mutual funds, caused by investors that sought havens in fixed-income securities amid still uncertain stock markets and reduced opportunities for obtaining short-term profits. Accordingly, stock brokerage fees suffered a 51.8% (or Ch$11,010 million) annual decrease due to a 40.8% annual contraction in stock trading turnover for transactions handled by our securities brokerage subsidiary. Similarly, fees and commissions from mutual funds management decreased 12.2% (or Ch$7,766 million), mainly due to portfolios that were rebalanced towards fixed-income securities by their holders.

Higher fees and commissions associated with traditional or core banking business, which almost completely offset the decrease in net fees and commissions from specialized services, as mentioned above. In this regard, we experienced an increase in commissions income from transactional services and payment channels, such as the increase of 7.0% (or Ch$5,306 million) in fee income from current accounts, overdrafts, credit lines and credit cards, as well as a 9.6% (or Ch$2,493) increase in fee income from sight accounts and ATMs in 2012 as compared to 2011. These factors are consistent with the economic cycle that was characterized by low unemployment, rising real salaries and higher household spending, as well as a higher penetration of our banking services (specifically payment channels) in the lower and middle income segments.

Our expansion in transactional services and loans that resulted in higher fees and commissions income from collection of overdue loans and insurance brokerage services. Whereas fee income from collection of overdue loans increased 13.9% (or Ch$2,526 million) on an annual basis, fees and commissions related to our insurance brokerage activities increased by 2.2% (or Ch$1,310 million) in 2012 as compared to 2011.

2010 and 2011. During 2011 our net fees and commissions accounted to Ch$308,773 million, which is 5.6% above the figure posted a year earlier. This annual increment was the result of:

- A 20.3% increase (or Ch$10,001 million) in fees and commissions associated with our insurance brokerage business, mainly as a result of the more dynamic commercial activity, prompted by higher aggregate consumption.

- Annual growth of 22.6% (or Ch$4,803 million) in net fees and commissions related to sight accounts and ATM usage, explained by increased consumption. Also, worth noting are our efforts to launch new products that promote the use of sight accounts and our ATM network, such as RedGiro and Cuenta Móvil.

- Net fees and commissions associated with current accounts, credit lines, overdrafts and credit cards that increased by 5.2% (or Ch$3,729 million). This increase was mainly fostered by an annual increase of 25.3% in commissions from credit cards that reflects the commercial initiatives we have implemented in order to reinforce the use of this payment channel.

- A 3.8% annual growth (or Ch$2,333 million) in fees and commissions associated with our mutual funds business due to a higher average yield and despite a 3.1% annual decrease recorded in assets under management.

The above was partly offset by net fees and commissions from stock brokerage and financial advisory services that decreased by 10.6% (or Ch$2,506 million) and 33.6% (or Ch$1,614 million), respectively. Whereas we witnessed lower activity in financial advisory services, mostly in debt restructuring, our stock brokerage business was affected by lower stock trading turnover during the second half of 2011, as a result of the volatility and uncertainty in the global and local stock markets that encouraged investors to seek refuge in fixed-income securities, which offered high yields in the local market.

Other Income (Loss), Net

Other income (loss), net, consists of net gains and losses from financial operating income, net gains and losses from foreign exchange transactions and other operating income. Financial operating income results include gains and losses realized on the sale of securities, gains and losses from the mark to market of securities and interest rate and currency derivatives at the end of the period. Net gains and losses from foreign exchange transactions include gains and losses realized upon the sale of foreign currency and foreign exchange derivatives and gains and losses arising from the period-end translation of foreign currency denominated assets and liabilities into pesos. Foreign exchange results also include net adjustments on U.S. dollar-indexed domestic currency transactions and existing interest rate differences in currency derivatives.

Table of Contents

The following table sets forth certain components of our other income (loss), net, for the years ended December 31, 2010, 2011 and 2012:

IFRS:	For the Year Ended December 31, 2010	2011	2012	% Increase (Decrease) 2010/2011	2011/2012
	(in millions of Ch$, except percentages)			%	
Net financial operating income					
Interest accrued on trading securities	Ch$ 9,119	Ch$ 10,366	10,683	13.7%	3.1%
Gains on sales and mark to market	31,536	6,353	8,497	(79.9)	33.7
Gains (losses) on derivatives contracts	(23,342)	40,024	(3,001)		
Gains (losses) from sales of loans	(150)	1,358	20		(98.5)
Total net financial operating (loss) income	17,163	58,101	16,199		(72.1)
Foreign exchange transactions, net	63,762	(7,973)	35,136		
Other operating income	23,584	24,735	20,887	4.9	(15.6)
Total	**Ch$ 104,509**	**Ch$ 74,863**	**72,222**	**(28.4)%**	**(3.5)%**

2011 and 2012. Our other income (loss) net recorded a 3.7% annual increase, from Ch$74,863 million in 2011 to Ch$77,650 million in 2012. This increase was mainly caused by results from the management of the investment portfolio that recorded a 6.2% annual increase, from Ch$18,077 in 2011 (including interest earned on trading securities of Ch$10,366 million, gains on sales and mark-to-market of Ch$6,353 million and gains from sales of loans of Ch$1,358 million) to Ch$19,200 in 2012 (including interest earned on trading securities of Ch$10,683 million, gains on sales and mark-to-market of Ch$8,497 million and gains from sales of loans of Ch$20 million). This increase was primarily due to our Treasury s efforts to take advantage of trading opportunities in fixed income, which enabled us to effectively offset lower revenues from our available-for-sale portfolio as a result of reduced sales and the negative impact of low inflation on interest earned. Similarly, income from derivative contracts, net of foreign exchange transactions, recorded a slight 0.3% annual increase from Ch$32,051 million in 2011 (including gains on derivatives contracts of Ch$40,024 million and losses in foreign exchange transactions of Ch$7,973 million) to Ch$32,135 million (including losses on derivatives contracts of Ch$3,001 million and gains in foreign exchange transactions of Ch$35,136 million), mainly due to favorable market conditions at the close of certain positions that enabled us to efficiently offset a negative exchange rate effect on the hedge of our provisions for loan losses denominated in U.S.$, due to a 9.0% appreciation of the Chilean peso in relation to the US dollar in 2012 as compared to a 10.2% depreciation of the Chilean peso in 2011.

2010 and 2011. Our other income (loss) net recorded a 28.4% decrease, from Ch$104,509 million to Ch$74,863 million. This decrease was the result of a 55.4% decline, from Ch$40,505 million in 2010 (including interest earned on trading securities of Ch$9,119 million, gains on sales and mark-to-market of Ch$31,536 million and losses from sales of loans of Ch$150 million) to Ch$18,077 in 2011 (including interest earned on trading securities of Ch$10,366 million, gains on sales and mark-to-market of Ch$6,353 million and gains from sales of loans of Ch$1,358 million) million, in the income associated with our investment portfolio, mainly as a result of the sharp increase in interest rates in 2011 compared to 2010. In effect, due to the low interest rates in 2010 (and expectations of future increases) we sold a significant amount of fixed-income securities that translated into significant gains, which could not be repeated in 2011 due to the higher interest rates. These factors were supplemented by a decrease in gains from derivative contracts, net of foreign exchange transactions, from Ch$40,420 million in 2010 (including losses on derivatives contracts of Ch$23,342 million and gains in foreign exchange transactions of Ch$63,762 million) to Ch$32,051 million in 2011 (including gains on derivatives contracts of Ch$40,024 million and losses in foreign exchange transactions of Ch$7,973 million), mainly as a result of the decrease in the spread between local and foreign interest rates that constrained the possibility of arbitrage between local and foreign currency funding.

Table of Contents

Provisions for Loan Losses

We recognize allowances to cover possible credit losses in accordance with IFRS as issued by the IASB. For statistical information with respect to our substandard loans and allowances for loan losses, see Item 4. Information on the Company Selected Statistical Information and Note 10(b) to our audited consolidated financial statements as of and for the year ended December 31, 2012. According to regulations applicable to such periods, the amount of provisions charged to income in any period consists of net provisions for possible loan losses.

The following table sets forth information with respect to our provisions and allowances for loan losses and charge-offs for each of the years ended December 31, 2010, 2011 and 2012:

IFRS:	For the Year Ended December 31, 2010	2011	2012	% Increase (Decrease) 2010/2011	2011/2012
	(in millions of Ch$, except percentages)			%	
Provisions:					
Net provisions for loan losses	Ch$ 157,651	Ch$ 146,925	Ch$ 166,420	(6.8)%	13.3%
Gross provisions for loan losses	189,820	192,580	207,382	1.5	7.7
Total loan loss recoveries	32,169	45,655	40,962	41.9	(10.3)
Charge-offs:					
Total charge-offs	149,093	177,960	182,733	19.4	2.7
Net charge-offs	116,924	132,305	141,771	13.2	7.2
Other asset quality data:					
Total loans	Ch$ 14,377,995	Ch$ 17,386,497	Ch$ 18,771,761	20.9	8.0
Allowances for loan losses	348,027	362,741	387,803	4.2	6.9
Allowances for loan losses as a percentage of total loans	2.42%	2.09%	2.07%		
Provisions for loan losses as a percentage of average loans	1.16%	0.92%	0.92%		

2011 and 2012. Our provisions for loan losses recorded a 13.3% annual increase, from Ch$146,925 million in 2011 to Ch$166,420 million in 2012. On the one hand, this increase is consistent with the expansion of our loan book and our strategic priorities intended to focus on the retail banking segment. On the other hand, the rise in provisions for loan losses is also explained by specific credit quality factors that loomed in the first half of 2012. Therefore, the main forces influencing our increase in provisions for loan losses were:

A volume effect associated with a 13.5% annual growth in the average balance of total loans that was primarily focused on expanding our presence in the retail bankings segment and, to a lesser extent, maintaining our leading position in the wholesale banking segment, all of which is in line with our strategic priorities.

A portfolio-mix effect, caused by a 17.1% annual increase in the average balance of retail banking loans compared to a 10.5% annual increase in average balances of wholesale banking loans, which on average should result in a moderately higher credit risk for our loan book

Moderate credit quality deterioration during the first half of 2012 that was caused by social and regulatory issues rather than economic forces and had industry-wide effects. This deterioration particularly affected loans granted by our retail banking segment, and as a result, we were even more cautious in managing our growth by tightening our credit assessment procedures and enhancing our collection duties. This enabled us to temper the effects of the credit quality deterioration and return to mid-term past-due indicators as from the second quarter of 2012.

The above-mentioned factors were partially offset by a positive exchange rate effect on our provisions for loan losses linked to U.S. dollar-denominated credits, as a result of the 9.0% annual appreciation of the Chilean peso in relation to the U.S. dollar in 2012 as compared to the 10.2% depreciation of the Chilean peso in 2011.

105

Table of Contents

As for our credit quality indicators, in 2012 our ratio of provisions for loans losses as a percentage of average loans remained unchanged in 0.92%, which demonstrates that the growth in credit risk charges was consistent with the expansion of our loan book and remained under control.

2010 and 2011. Our provisions for loan losses recorded a 6.8% annual decrease, from Ch$157,651 million in 2010 to Ch$146,925 million in 2011. This variation corresponds to the improved economic scenario that benefited certain key macroeconomic indicators, such as unemployment and real salaries, all of which positively impacted our individual customers payment capacity. Similarly, the increasing aggregate demand caused an upturn in the commercial activity of Chilean companies, which translated into improved results of operations and a healthier financial condition. Worth mentioning is that the reduction in provisions for loan losses took place within a scenario of a growing loan portfolio, demonstrating the effectiveness of our credit processes, from assessment to collecting.

As mentioned, the decrease in provisions for loan losses was spurred by improved risk profiles of both, individuals and companies, which is reflected by:

- An annual decrease of 15.5% in recurrent provisions for loan losses related to our Retail Banking segment, as a result of macroeconomic indicators, which benefited individuals and SMEs, since they are evaluated by applying grouped credit risk models.

- An annual decline of 8.7% in provisions for loan losses associated with our Wholesale Banking segment, as a result of the higher commercial activity evidenced in 2011 as compared to 2010 that improved the cash flow generating capacity of large companies and corporations.

As a result we saw an improving trend in our credit quality indicators. This is reflected by our ratio of provisions for loan losses to average total loans that amounted to 0.92% in 2011, which is below the 1.16% recorded a year earlier.

Operating Expenses

The following table sets forth information regarding our operating expenses for the years ended December 31, 2010, 2011 and 2012:

	For the Year Ended December 31,			% Increase (Decrease)	
	2010	**2011**	**2012**	**2010/2011**	**2011/2012**
IFRS:	(in millions of Ch$, except percentages)			%	
Personnel expenses	Ch$ 272,737	Ch$ 316,991	Ch$ 312,065	16.2%	(1.6)%
Administrative expenses:					
Advertising	22,804	26,515	30,572	16.3	15.3
Building maintenance	25,647	28,486	29,332	11.1	3.0
Rentals and insurance	18,419	20,595	22,486	11.8	9.2
Office supplies	5,735	6,556	6,346	14.3	(3.2)
Other expenses	125,064	147,767	158,723	18.2	7.4
Total administrative expenses	Ch$ 197,669	Ch$ 229,919	247,459	16.3	7.6
Impairments	1,044	631	899	(39.6)	42.5
Depreciation and amortization	34,964	35,131	35,146	0.5	0.0
Other operating expenses	37,813	30,939	39,550	18.2	27.8
Total	**Ch$ 544,227**	**Ch$ 613,611**	**Ch$ 635,119**	**12.7%**	**3.5%**

2011 and 2012. Our operating expenses accounted for Ch$635,119 million in 2012, which is 3.5% above the Ch$613,611 million recorded in 2011. In line with our efforts to improve operating efficiency, our operating expenses remained stable during 2012 and were aligned with our business growth by rising slightly above inflation. The primary factors that caused this increase include:

Administrative expenses that increased 7.6% from Ch$229,919 million in 2011 to Ch$247,459 million in 2012. The main reasons for this increase were: (i) approximately Ch$6,022 million in additional IT expenses associated with diverse developments undertaken in 2012 (improvements to our datacenters and new online services), (ii) roughly Ch$4,057 million in additional marketing expenses for enhancing brand recognition and supporting product-launch campaigns, and (iii) about Ch$3,045 million in additional expenses associated with our distribution network (rentals, maintenance, etc.).

Personnel expenses that decreased 1.6% from Ch$316,991 million in 2011 to Ch$312,065 million in 2012. The decrease in personnel expenses reflects recurring and extraordinary effects. The recurring effects include the salary increase following the 2011 collective bargaining process and the expansion of our workforce, especially for collection duties. Regarding extraordinary effects, in 2011 we distributed a Ch$28,100 million special bonus to our staff also following the completion of the 2011 collective bargaining process. This bonus represents a high basis for comparison with respect to the extraordinary bonuses of Ch$3,970 million and Ch$2,127 million granted in 2012 in order to recognize our outstanding performance during the year and the completion of collective bargaining agreements carried out by two of our subsidiaries, respectively. As a result, our recurring personnel cost base, once adjusted by extraordinary effects, increased 6.9% from approximately Ch$288,891 million in 2011 to Ch$305,968 million in 2012.

Other operating expenses amounted to Ch$39,550 million in 2012 as compared to Ch$30,939 million in 2011, which represents a 27.8% increase. This increase was principally caused by higher operational charge-offs associated with the implementation of a new online current account platform and other general expenses.

2010 and 2011. Our operating expenses were Ch$613,611 million in 2011, which represented a 12.7% increase over last year s amount. This annual increment is explained by core business activities and projects, as well as non-recurring effects including:

The collective bargaining processes carried out by the Bank with its unions during 2011. These negotiations led to three and four-year collective agreements and a special bonus granted to our staff at the end of negotiations. This non-recurrent bonus amounted to Ch$28,100 million and accounted for 60% of the 16.2% increase posted by our personnel expenses in 2011 as compared to 2010. Excluding the bonus, personnel costs increased 5.6%.

Our recurrent cost base recorded a 16.3% increase in administrative expenses, from Ch$197,669 million in 2010 to Ch$229,919 million in 2011. This increase was caused by: (i) approximately Ch$11,000 million in additional outsourced sale force expenses, in line with the higher commercial activity in our retail banking segment, (ii) approximately Ch$9,000 million of additional expenses related to new branches (25 in 2011) and improvements to our distribution network, (iii) nearly Ch$7,000 million in increased IT and communication expenses, explained by transactional processing, software licenses and the implementation of different projects associated with our mid-term IT strategic plan, and (iv) an increase in marketing expenses of approximately Ch$4,000 million related to advertising campaigns intended to reinforce our corporate reputation and support the launch of new products and services.

Income Tax

Under Law No. 19,396 we are permitted to deduct dividend payments made to SAOS from our taxable income. Consequently, our effective tax rate is lower than the statutory corporate income tax rate because of the deduction of said dividend payments from our taxable income. Additionally, but to a lesser extent, differences in the tax treatment for monetary correction, as well as provisions on individual loans and for charge-offs related to past-due loans have an impact on our effective tax rate. Finally, all real estate taxes paid on properties that are leased to customers are deductible from our taxable income.

On July 31, 2010, the Chilean Congress enacted Law No. 20,455 in response to the February 27, 2010 earthquake, which temporarily increased the statutory corporate income tax rates from 17.0% to 20.0% for the year ending December 31, 2011 and 18.5% for the year ending December 31, 2012, returning to 17.0% for the year ended December 31, 2013. Nevertheless, in 2012 the government submitted a tax reform bill to the Congress, which was finally passed on September 27, 2012 (Law No. 20,633), establishing a new statutory corporate income tax rate of 20.0% from 2012 onwards.

2011 and 2012. Our income tax expense decreased 3.0% to Ch$63,488 million in 2012. This annual decrease, in combination with an annual increase of 7.5% in our income before income tax, caused a decrease in the effective tax rate from 13.0% in 2011 to 11.7% in 2012.

The decrease in the effective tax rate in 2012 as compared to 2011 is mostly the consequence of a change in the statutory corporate tax rate from 2012 onwards by the the previously mentioned Law No. 20,630, enacted on September 27, 2012. This modification prompted tax benefits for us associated with our deferred tax asset position, as a result of an increase in the tax rate from 18.5% in 2012 and 17.0% as from 2013 (as formerly established by Law No 20,455) to 20.0% from 2012 onwards (as determined by Law No 20,630 later).

2010 and 2011. In 2011 we incurred an income tax expense of Ch$65,442 million, which represented a 40.7% increase as compared to 2010. This annual increase is proportionally higher than the increase of 8.5% recorded by our income before income tax resulting in an effective tax rate of 13.0% in 2011 as compared to the 10.0% posted in 2010.

The increase in the effective tax rate in 2011 as compared to 2010 is mainly explained by a higher statutory corporate tax rate that increased from 17.0% in 2010 to 20.0% in 2011, primarily as a result of the previously mentioned Law No. 20,455 that was enacted in order to support the post-earthquake reconstruction process.

Business Segments

To the extent that it is available and is useful in analyzing our results, we have included information on a consolidated basis by business segments, disclosed under our Internal Reporting Policies. A summary of differences between IFRS and our Internal Reporting Policies is presented under Summary of Differences between Internal Reporting Policies and IFRS.

For management purposes, we have organized our operations and commercial strategies into four business segments, which are defined according to the type of products and services offered to target customers. These business segments are:

Retail Banking: This segment is focused on individuals and small and medium-sized companies whose annual sales do not exceed Ch$1,600 million. The segment s value proposition is primarily focused on consumer loans, commercial loans, current accounts, credit cards, credit lines and mortgage loans.

Wholesale Banking: This segment is focused on corporate clients and large companies whose annual sales that exceed Ch$1,600 million. This segment offers products and services focused on commercial loans, current accounts, liquidity management services, debt instruments, foreign trade, derivative contracts and leases, as well as corporate finance transactions.

Treasury and Money Market: The revenue generated by this segment relates to the management of our liquidity and net positions subject to market risks. This segment also includes the results of our securities portfolio, our derivatives positions and currency trading.

Operations through subsidiaries: This segment includes all companies controlled by us whose results are obtained individually by the respective company. As of December 31, 2012, this business segment consisted of:

- Banchile Trade Services Limited;
- Banchile Administradora General de Fondos S.A.;
- Banchile Asesoría Financiera S.A.;
- Banchile Corredores de Seguros Ltda.;
- Banchile Factoring S.A.;

Banchile Corredores de Bolsa S.A.;

- Banchile Securitizadora S.A.;
- Socofin S.A.; and
- Promarket S.A.

The accounting policies described in the summary of accounting principles in Critical Accounting Policies apply to all business segments. Matters such as the evaluation of segment performance and decision-making processes regarding goals and allocation of resources for each segment are based on a cost-benefit analysis and are aligned with our overall strategic goals.

In order to measure each segment s financial performance, we use a business segment-based profitability system, which allows us to obtain information for each business segment relative to income, balances, revenues and expenses, among other indicators. This system has been internally developed in order to serve our specific requirements and we continuously work to improve it. In addition, business segment information is subject to general internal auditing procedures to ensure its integrity and usefulness for management decision-making.

The financial information used to measure the performance of our business segments is not necessarily comparable with similar information from other financial institutions because it is based on our internal reporting policies. The accounting policies used to prepare our operating segment information are similar to those described in Note 2(ah) to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report, except as noted below:

- The net interest margin of loans and deposits is measured on an individual transaction and individual client basis, due to the difference between the effective individual transaction rate and our related fund transfer price in terms of maturity, re-pricing and currency.
- The results associated with gap management (interest rate and currency mismatches) are allocated to the business segments in proportion of loans and demand deposits managed by each segment.
- For purposes of allocating the effect of funding through capital and reserves, the internal performance profitability system considers capital allocation in each segment in accordance with Basel guidelines.
- In addition to direct costs (consisting mainly of labor and administrative expenses of the business segments), we allocate all of our direct and indirect operating costs of back office and support units to each business segment by utilizing the most relevant business driver to assign such costs to a specific segment.
- We apply Chilean GAAP, as required by the Superintendency of Banks, when measuring and recording allowances for loan losses, assets received in lieu of payments, minimum dividend allowances and other minor items for internal reporting purposes. These accounting principles significantly differ in certain respects from IFRS. A description of these differences is presented below under Summary of Differences between Internal Reporting Policies and IFRS.

Net Income by Business Segment

The following table sets forth income before income tax by business segment in accordance with our internal reporting policies for each of the years ended December 31, 2010, 2011 and 2012:

	For the Year Ended December 31,			% Increase (Decrease)	
BANK S INTERNAL REPORTING POLICIES:	**2010**	**2011**	**2012**	**2010/2011**	**2011/2012**
	(in millions of Ch$, except percentages)			%	

Retail banking	Ch$ 182,114	Ch$ 266,485	Ch$ 254,209	46.3%	(4.6)%
Wholesale banking	107,826	142,509	196,660	32.2	38.0
Treasury and Money Market	64,862	20,264	22,387	(68.8)	10.5
Subsidiaries	62,237	59,136	46,545	(5.0)	21.3
Other					
Income before Income tax	Ch$ 417,039	Ch$ 488,394	Ch$ 519,801	17.1%	6.4%

Table of Contents

Retail Banking

2011 and 2012. Our retail banking segment recorded a 4.6% annual decrease in income before income tax from Ch$266,485 million in 2011 to Ch$254,209 million in 2012. This decrease occurred in spite of the strong growth shown by the segment in its main business drivers during 2012. In fact, the annual decrease in income before income tax was principally caused by higher provisions for loan losses that were mostly established in the first half of 2012. Therefore, the performance of our retail banking segment during 2012 was mostly affected by:

- A 61.4% annual increase in provisions for loans losses largely due to:

  - A low basis for comparison. In 2011 the banking industry overall recorded historically low levels of credit risk, mainly influenced by the positive economic cycle that enhanced customer payment capacity, especially in personal banking. Similarly, Banco de Chile recorded loan loss provisions below historical levels, as a percentage of average total loans.

  - A moderate deterioration in credit quality across the industry that peaked in the second quarter of 2012 but returned to historical average figures by the end of the year. This deterioration was mainly associated with social and regulatory forces rather than economic factors and primarily affected consumer loans. As corrective measures, we were more conservative in establishing our provision for loan losses, made our credit-assessment processes tighter and enhanced our collection duties. As a result, by the end of 2012 our credit quality indicators had returned to average levels.

- Our increasing penetration of the consumer lending market, especially in credit cards (annual expansion of 19.6% in related loans) and installment loans (7.9% annual growth in balances).

- A 7.0% increase in the segment s operating expenses in 2012 which was mainly caused by higher personnel expenses due to both a rise in headcount and a salary increase as a result of the collective bargaining agreement reached in 2011.

The previous factors were partially offset by an 11.1% increase in operating revenues, as a consequence of: (i) a 17.1% annual growth in the average balance of total loans for the segment, (ii) a 10.8% annual expansion in the average balances of current accounts and demand deposits that was supplemented by slightly higher nominal interest rates, and (iii) fees and commissions that increased 5.5% in 2012 as a result of higher activity in transactional services (current accounts and payment channels) tied to a growing private consumption. These positive factors enabled the segment to effectively offset the negative impact of lower inflation on the segment s UF net asset position.

2010 and 2011. The segment s income before income tax amounted to Ch$266,485 million, a 46.3% annual increase as compared to 2010. This significant increase was caused by higher operating revenues and lower provisions for loan losses. As for the former, the segment s operating revenues posted a 15.1% annual increase, due to:

- A higher contribution from the segment s non-interest bearing liabilities, due to higher nominal interest rates prompted by the increase in the monetary policy interest rate as well as a 21.3% rise in the average balances of demand deposits.

- Double-digit growth rates in credit products that averaged 21.1% on a yearly basis. This increase is related to an increase in year-end balances of residential mortgage (23.3%) and commercial loans (20.0%), and, to a lesser extent, in consumer loans (19.2%).

- The positive effect of higher inflation on the segment s UF net asset position.

A 16.5% annual increase in the segment s fees and commissions. This annual increase was the result of our efforts to boost the use of our payment channels which resulted in higher commissions from credit cards, ATMs, current accounts and sight accounts. According to our management information system, during 2011 this segment added approximately 350,000 new credit cards and achieved a 28% market share in purchases and cash withdrawals with credit cards, nearly 94,000 new checking account customers and approximately 42,000 new borrowers of consumer loans up to UF 200 (approximately U.S.$8,500).

Table of Contents

In addition, the segment s provisions for loan losses decreased by 16.9% due to: (i) improved macroeconomic indicators, such as lower unemployment and higher real salaries that increased customers payment capacities and (ii) improved credit models that were supplemented by effective collection.

The above was partly offset by an increase of 11.3% in operating expenses associated with higher expenses related to our branch network expansion and higher personnel expenses due to the special bonus and the increase in salaries as a result of the collective bargaining agreements.

Wholesale Banking

2011 and 2012. Our wholesale banking segment recorded a 38.0% increase in income before income tax from Ch$142,509 million in 2011 to Ch$196,660 million in 2012. This annual increase occurred despite the negative effect of lower inflation on the segment s UF net asset position and can be explained by the following recurrent and extraordinary factors:

- Operating revenues that grew 13.8% annually, from Ch$281,994 million in 2011 to Ch$321,004 million in 2012. This increase of approximately Ch$39,010 million was mainly due to:

  - the recognition of a realized loss of Ch$42,462 million in 2011 due to the sale of a non-performing loan portfolio (with a similar positive impact on the segment s provisions for loan losses),

  - a 10.5% and 10.2% increase in the average balances of total loans and demand deposits (including current accounts), respectively,

  - an 8.4% increase in net fees and commissions income, primarily due to higher fee income from credit restructuring, and

  - the negative effect of lower inflation that was effectively offset by the previously mentioned factors.

- A 36.0% decrease in provisions for loan losses, including the following extraordinary effects: (i) the release of Ch$43,950 million in allowances in 2011 related to the aforementioned sale of a non-performing loan portfolio and (ii) countercyclical allowances established in 2011 that translated into approximately Ch$17,564 million for the segment in that period. Once these extraordinary effects are isolated, the segment s provisions for loan losses for 2012 decreased approximately Ch$30,176 million as compared to 2011, 30% of which is explained by the deterioration of a specific customer s risk profile in 2011.

- An annual decrease of approximately 9.5% in the segment s operating expenses, which was mainly attributable to lower personnel expenses due to the special bonus granted to our staff in 2011 once we completed the collective bargaining process, as well as lower overhead expenses in 2012 when compared to 2011.

For the year ended December 31, 2012 there were no material effects related to loan portfolio sales.

2010 and 2011. Our wholesale banking segment recorded a yearly increase of 32.2% in income before income tax from Ch$107,826 million in 2010 to Ch$142,509 million in 2011. This annual variation was fueled by a decrease of 85.9% in provisions for loan losses and a slight increase in operating revenues, as follows:

- The significant decline in provisions for loan losses was due to: (i) the release of allowances for loan losses of approximately Ch$43,950 million in 2011, related to the sale of a non-performing corporate customer s loan portfolio, and (ii) the recognition of approximately Ch$12,000 million of further contingency and countercyclical provisions in 2010 as compared to 2011, mainly due to the regulation for provisioning individually evaluated loans that was anticipated in 2010. If credit risk charges are adjusted by these non-recurrent items, the recurrent provisions also posted a decrease of 8.7%, despite the growth in loans and higher provisions of U.S. dollar-denominated loans due to an 11% rise in the Chilean peso/U.S. dollar exchange.

In operating revenues, the segment recorded a slight 0.3% increase due to: (i) the positive effect of higher nominal interest rates on the segment s demand deposits average balances which grew by 18.2%, (ii) a 21.0% increase in the segment s loan portfolio (mostly due to the expansion by 21.0% in commercial loans) and (iii) the positive effect of higher inflation on the segment s UF net asset position.

Table of Contents

The above was partly offset by the recognition (in Other Operating Income) of a realized loss that amounted to approximately Ch$42,462 million, associated with the sale of the previously mentioned non-performing loan portfolio and a 27.1% annual rise in the segment s operating expenses due to the collective bargaining bonus, a rise in salaries to reflect inflation and productivity, as well as higher administrative expenses.

With respect to the previously mentioned loan portfolio sale carried out in 2011, as of the transaction date, the outstanding balance, related allowances for loan losses and sale price for this portfolio were:

Loan Portfolio Details	Millions of Ch$
Gross Outstanding Balance (excluding allowances)	Ch$ (48,926)
Sale Price	6,464
Realized Loss	**(42,462)**
Release of Related Allowances	43,950
Net Gain	**Ch$ 1,488**

For purposes of internal reporting (under our internal reporting policies for business segment reporting) and as required by the Chilean regulator, we accounted for a realized loss of Ch$42,462 million within Other Operating Income , while recognizing an allowance release of Ch$43,950 million within Provisions for Loan Losses . These allocations resulted in a net gain (although presented separately) of Ch$1,488 million. Under IFRS, this net gain was recognized under other operating income, within the gains (losses) from sales of loans sub line item, as disclosed earlier.

Treasury and Money Market

2011 and 2012. In 2012 our Treasury recorded income before income tax of Ch$22,387 million that represented a 10.5% increase as compared to the Ch$20,264 million recorded a year earlier. This variation was mainly caused by a 3.7% increase in the segment s operating revenues that can be explained by:

- Improved results from trading of fixed-income and derivative securities as a result of our Treasury s proactive management of our investment portfolio, as well as taking advantage of specific market opportunities to make profits.

- The higher results from trading activities were partly offset by lower income generated by the management of our available-for-sale portfolio due to the negative impact of lower inflation on the interests accrued by fixed-income securities, most of them denominated in UF, and lower amount of sales as compared to 2011.

2010 and 2011. Our Treasury posted an annual decrease of 68.8% in income before income tax from Ch$64,862 million in 2010 to Ch$20,264 million in 2011. This significant drop in results was primarily caused by a 59.6% decline in the segment s operating revenues as a consequence of:

- The sharp increase in spreads of foreign currency instruments during the second half of 2011 that was fostered by the slowdown observed in the global economy.

- The significant rise in interest rates in 2011 as compared to 2010. During 2010 the low interest rates (and expectation of future increases) led us to sell fixed-income securities that enabled us to obtain significant gains. Conversely, in 2011 and due to the higher interest rates, we could not take profits from our available-for-sale positions.

The decrease of the gap between local and foreign interest rates that has constrained the possibility of arbitrage between local and foreign currency funding.

Table of Contents

All of the above was partially offset by operating expenses that posted a 20.7% annual decrease, principally due to lower technology expenses and decreasing allocated costs from support areas.

Operations through Subsidiaries

2011 and 2012. Our subsidiaries recorded a 21.3% decrease in income before income tax from Ch$59,136 million in 2011 to Ch$46,545 million in 2012. This decline was primarily explained by a 4.1% annual drop in the segment s operating revenues, as well a 7.5% increase in operating expenses. Thus, our subsidiaries annual performance is primarily explained by:

- A 10.7% decrease in net fees and commissions income in 2012 as compared to 2011, mainly as a result of reduced commercial activity in securities brokerage and mutual funds management caused by investors that withdrew their savings from stock markets and invested in fixed-income securities. As a consequence, in 2012, our fees from securities brokerage and commissions from mutual funds decreased Ch$11,010 million and Ch$7,766 million, respectively. As for securities brokerage, lower fees and commissions were caused by a 40.8% annual decrease in stock trading turnover handled by the subsidiary. Regarding mutual funds, lower fee income was a consequence of portfolios managed by our mutual funds subsidiary that were rebalanced by their holders towards fixed-income. These effects were partially offset by higher commissions from insurance brokerage services, financial advisory services and collection services (approximately Ch$4,572 million in additional income collectively).

- The decrease in net fees and commissions was partially offset by higher net interest income in our factoring subsidiary, mainly due to the positive effect of a lower inflation rate on the company s UF net liability position.

- On the other hand, the annual increase of 7.5% in the segment s operating expenses was due to collective bargaining processes carried out by two of our subsidiaries and a headcount increase intended to reinforce our collection activities.

2010 and 2011. Our subsidiaries posted a 5.0% annual decline in their income before income tax from Ch$62,237 million in 2010 to Ch$59,136 million in 2011. The annual change reflected the impact of the higher volatility in local and global financial markets on the activity of some of our subsidiaries, as follows:

- Our Securities Brokerage subsidiary posted a Ch$2,590 million decrease in net income, based on a 3.1% decline in stock trading turnover, which is explained by the higher uncertainty evidenced in the financial markets and investors that sought haven in fixed-income securities.

- A decrease of Ch$2,310 million in the net income of our Insurance Brokerage, subsidiary mainly as a result of a 10.6% reduction in operating revenues due to lower brokerage margins, partly offset by higher volumes of written premiums.

- Our Financial Advisory subsidiary posted a decrease of Ch$1,101 million in net income, based on lower equity and bond issuance activity, as well as lower debt restructuring advisory engagements in 2011.

The above factors were partly offset by better performance in our Factoring subsidiary, whose net income increased by Ch$3,088 million as a result of higher commercial volumes that translated into a 28.2% annual rise in the average volume of factoring loans. The greater business scale enabled the subsidiary to overcome a higher cost of funding associated with the impact of a higher inflation on the company s UF net liability position.

Table of Contents

Summary of differences between internal reporting policies and IFRS

We prepare our business segments financial information in accordance with our internal reporting policies, which differ in certain significant aspects from IFRS. The following table sets forth net income and equity for the years ended December 31, 2010, 2011 and 2012 in accordance with our internal reporting policies and under IFRS:

	Year Ended December 31, 2010	2011 (in millions of Ch$)	2012
Income before income tax (Internal Reporting Policies)	Ch$ 417,039	Ch$ 488,394	Ch$ 519,801
Reconciliation to IFRS	47,089	15,235	21,808
Income before income tax (IFRS)	**464,128**	**503,629**	**541,609**
Net income (Internal Reporting Policies)	378,530	428,806	465,851
Reconciliation to IFRS	39,085	9,381	12,270
Net income (IFRS)	**417,615**	**438,187**	**478,121**
Equity (Internal Reporting Policies)	1,404,127	1,739,173	2,007,059
Reconciliation to IFRS	290,198	301,496	348,403
Equity (IFRS)	**Ch$ 1,694,325**	**Ch$ 2,040,669**	**Ch$ 2,355,462**

Some differences exist between our net income and equity as determined in accordance with our internal reporting policies, which are used for management reporting purposes, as presented in the segment information, and our net income and equity as determined under IFRS, as presented in our consolidated financial statements.

The most significant differences are as follows:

Under internal reporting policies, our merger with Citibank Chile was accounted for under the pooling-of-interest method, while under IFRS, and for external financial reporting purposes, the merger of the two banks was accounted for as a business combination in which we were the acquirer as required by IFRS 3 Business Combinations. Under IFRS 3, we recognized all acquired net assets at fair value as determined at the acquisition date, as well as the goodwill resulting from the purchase price consideration in excess of net assets recognized. As a result of these accounting policy differences, the impact on our net income under IFRS is Ch$6,450 million, Ch$7,438 million and Ch$3,848 million lower than our internally reported net income in 2010, 2011 and 2012, respectively.

For internal reporting purposes, allowances for loan losses are calculated based on specific guidelines set by the Superintendency of Banks based on an expected losses approach. Under IFRS, IAS 39 Financial instruments: Recognition and Measurement, allowances for loan losses should be adequate to cover losses in the loan portfolio at the respective balance sheet dates based on an analysis of estimated future cash flows. According to internal reporting policies, we record additional allowances related to expected losses not yet incurred, whereas under IFRS these expected losses may not be recognized. As a result of these accounting policy differences, the impact on our net income under IFRS is Ch$49,003 million, Ch$21,754 million and Ch$21,081 million higher than our net income internally reported in 2010, 2011 and 2012, respectively.

For internal reporting purposes, assets received in lieu of payments are measured at historical cost or fair value, less cost to sell, if lower, on a portfolio basis and written-off if not sold after a certain period in accordance with specific guidelines set by the Superintendency of Banks. Under IFRS, these assets are deemed non-current assets held-for-sale and their accounting treatment is set by IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations. In accordance with IFRS 5 these assets are measured at historical cost or fair value, less cost to sell, if lower. Accordingly, under IFRS these assets are not written off unless impaired. As a result of this accounting policy difference, the impact on our net income under IFRS is Ch$4,099 million, Ch$3,872 million and Ch$2,889 million higher than our net income internally reported in 2010, 2011, and 2012, respectively.

Chilean banks are required to distribute at least 30% of their net income to shareholders unless the shareholders unanimously approve the retention of profits. A bank may, however, be prohibited from distributing to shareholders even this 30% of its net income if such distribution would cause the bank to violate certain statutory capital requirements. In accordance with internal reporting policies, we record a minimum dividend allowance based on our distribution policy, which requires distribution of at least 70% of the period s net income, as permitted

Table of Contents

by the Superintendency of Banks. During 2010, 2011, and 2012, the Bank recorded allowances of Ch$242,503 million, Ch$259,501 million and Ch$300,759 million, respectively. Under IFRS, only the portion of dividends that is required to be distributed by Chilean Law must be recorded, i.e., 30% as required by Chilean Corporations Law. This accounting difference does not lead to differences in net income.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Overview

A sound liquidity strategy must be focused on ensuring that funds are available to honor our financial commitments when they are due and also to take advantage of attractive business opportunities. To accomplish this, we monitor funding liquidity (i.e., the ability to raise funds when they are needed without incurring abnormal costs) and trading liquidity (i.e., the ability to easily decrease debt and equity instruments held in our portfolios and/or offset price risk positions generated by derivative transactions).

Liquidity risk can be technically broken down into two types of risks: trading liquidity risk and funding liquidity risk. Trading liquidity risk deals with the inability to decrease cash positions (bonds, loans, etc.) and/or offset price risks generated by derivatives transactions and funding liquidity risk is related to the our inability to raise funds. Both risks can lead to potentially adverse scenarios that might make the bank unable to meet its payment obligations and/or potential payment obligations when they become due.

These two risks are jointly managed but by utilizing different tools, as detailed below.

Trading Liquidity Risk Management

Holding a stake of debt instruments with deep secondary markets ensures trading liquidity. Central Bank and government instruments and short-term banks time deposits show these characteristics. These kinds of instruments are held in our trading portfolio and comprise some portion of the Available-for-Sale (FAS) portfolio. In addition, mortgage bonds issued by banks resident in Chile and corporate bonds are also part of the FAS portfolio.

Even though mortgage and corporate bonds show much less trading liquidity than Central Bank and government instruments, the former may be sold to the Central Bank under repurchase agreements. Government instruments and short-term banks time deposits can also be sold to the Central Bank under repurchase agreements.

Funding Liquidity Risk Management

Diversifying funding sources and avoiding a concentration of large fund providers or funding maturity dates are means to ensure funding liquidity. We diversify through the establishment of triggers that monitor concentrations of funding sources, maturities, currencies, etc. The aggregation of significant fund providers by currency is monitored as a percentage of our current liabilities.

In particular, our funding strategy aims to satisfy our customers needs and to enhance our product base offering while maintaining a prudent product diversification profile, currencies and maturities. We are focused on broadening the current core and diversified funding obtained through the retail banking business. In addition, we are continuously issuing either senior or subordinated bonds in order to match both the liquidity and the interest rate risk generated by our long-term loans.

In addition to our own metrics in place to monitor liquidity, the Central Bank and the Superintendency of Banks have established regulations regarding liquidity, which include: minimum reserve requirements for deposits, minimum technical reserve requirements and maximum expected outflows for the following 30 and 90 days.

The Central Bank has established a minimum reserve of 9.0% for demand deposits and 3.6% for time deposits. The reserve requirement must be complied with separately by currency (Chilean Peso and foreign currencies).

In addition, we are subject to a technical reserve requirement applicable to all banks that operate in Chile. The daily balance of deposits and obligations payable on demand, except for obligations with other banks, may not exceed 2.5 times the amount of the bank s Regulatory Capital. Deposits and obligations payable on demand include:

- deposits in current accounts;

other demand deposits or obligations payable on demand and incurred in the ordinary course of business;

savings deposits that allow unconditional withdrawals that bear a stated maturity; and

other deposits unconditionally payable immediately.

Chilean banks are not required, however, to maintain the minimum reserves referred to above for deposits and obligations subject to this technical reserve.

Chilean regulations also require that the expected outflows within the following 30 days not exceed the amount of a bank s Basic Capital and the expected outflows within the following 90 days not exceed twice the amount of a bank s Basic Capital. Expected outflows may include behavioral assumptions. Measurements must be made separately, by currency.

Mandatory metrics requested by the Superintendency of Banks and other metrics developed by us utilizing internal models are prepared daily by independent units within the Corporate/Market Risk Management. These reports are submitted daily to the corresponding Treasury areas, which are in charge of overseeing and managing our liquidity. The Country Asset Liability Committee also monitors these metrics on a monthly basis.

Given our internal metrics and policies, we believe that our working capital is sufficient to meet our present needs.

Cash Flows

The tables below set forth our principal sources of cash. Our subsidiaries are not an important source of cash for us and therefore do not significantly affect our ability to meet our cash obligations. No legal, contractual or economic restrictions exist on the ability of our subsidiaries to transfer funds to us in the form of loans or cash dividends as long as they abide by the regulations in the Chilean Corporations Law regarding loans to related parties and minimum dividend payments.

	For the Year Ended December 31,		
	2010	**2011**	**2012**
		(in millions of Ch$)	
IFRS:			
Net cash provided by operating activities	Ch$ (95,574)	Ch$ (454,886)	Ch$ (415,987)

2011 and 2012. In 2012 net cash provided by operating activities increased by approximately Ch$38,899 million as compared to 2011. This increase was mainly caused by: (i) a net decrease of Ch$1,087,055 million in the outflow associated with loans granted to customers and financial institutions, and (ii) a net annual increase of Ch$128,311 million in 2012 as compared to 2011 in the inflow that comes from increasing balances of current accounts and other demand deposits. These factors were partly offset by a net annual decrease of Ch$1,212,543 million in the inflow that comes from taking saving accounts and time deposits.

2010 and 2011. The net cash provided by operating activities recorded an annual decrease of Ch$359,312 million between 2010 and 2011. This decline was primarily caused by: (i) an increase of Ch$2,191,997 million in the outflow related to loans granted to our customers and other banks, and (ii) a lower increase in the inflow from current accounts and demand deposits that amounted to Ch$279,623 on an annual basis. These factors were mostly offset by a higher increase in saving accounts and demand deposits that translated into an additional inflow of approximately Ch$1,246,506 that was supplemented by an net increase of Ch$418,566 million in the inflow associated with payables from repurchase agreements and security lending.

Table of Contents

	For the Year Ended December 31, 2010	2011 (in millions of Ch$)	2012
IFRS:			
Net cash used in investing activities	Ch$ 128,449	Ch$ (334,776)	Ch$ 192,351

2011 and 2012. The net cash used in investing activities increased from a net outflow of Ch$334,776 million in 2011 to a net inflow of Ch$192,351 million in 2012. The annual rise of Ch$527,127 was primarily caused by an annual net decrease in the balance of financial assets available for sale that resulted in a net inflow of Ch$219,403 in 2012 as compared to the outflow of Ch$316,083 million in 2011, due to higher sales in 2012 as compared to 2011.

2010 and 2011. The net cash used in investing activities increased from a net inflow of Ch$128,449 million in 2010 to a net outflow of Ch$334,776 million in 2011. This change was mainly prompted by a net increase in the balance of financial assets available for sale, which resulted in an outflow of Ch$316,083 million in 2011 as compared to the inflow of Ch$222,706 million recorded in 2010 as a consequence of sales associated with the same portfolio.

	For the Year Ended December 31, 2010	2011 (in millions of Ch$)	2012
IFRS:			
Net cash provided by (used in) financing activities	Ch$ (67,346)	Ch$ 911,975	Ch$ 48,087

2011 and 2012. The net cash provided by our financing activities decreased from Ch$911,975 million in 2011 to Ch$48,087 million in 2012. The annual decrease of Ch$863,888 million was mainly due to: (i) a net annual decrease of Ch$1,047,810 million associated with higher payments and lower inflows from foreign borrowings, and (ii) an outflow of Ch$279,258 million related to an increase in the redemption of bond issuances. These factors were partly offset by a higher inflow of approximately Ch$484,399 million related to proceeds from new bond issuances.

2010 and 2011. The net cash provided by (or used in) financing activities varied from a net outflow of Ch$67,346 million in 2010 to a net inflow of Ch$911,975 million in 2011. This variation was mainly associated with: (i) bond redemptions that decreased Ch$213,162 million, (ii) a capital increase of Ch$210,114 million carried out in 2011, (iii) lower payments on foreign borrowings in an amount of Ch$187,387 million, (iv) a net increase of Ch$177,849 million in borrowings from the Central Bank, and (v) higher proceeds from bond issuances that translated into an additional inflow of Ch$157,215 million.

Table of Contents

Borrowings

Borrowings are described as short-term when they have original maturities of less than one year or are due on demand. All other borrowings are described as long-term, including the short-term portion of any long-term borrowings.

	As of December 31, 2010			As of December 31, 2011			As of December 31, 2012		
S:	Long-term	Short-term	Total	Long-term	Short-term (in millions of Ch$)	Total	Long-term	Short-term	Total
rrowings m ancial titutions:									
ntral Bank dit lines									
egotiation oans	Ch$ 80	Ch$	Ch$ 80	Ch$ 63	Ch$	Ch$ 63	Ch$ 18		Ch$ 1
ner rrowings m the ntral Bank				22,792		22,792			
rrowings m mestic ancial titutions									
rrowings m foreign titutions	117,299	1,163,993	1,281,292	194,886	1,473,198	1,668,084	168,450	940,213	1,108,66
bt issued:									
nds	820,331		820,331	1,488,369		1,488,369	2,214,893		2,214,89
mmercial pers ort-term nds)								197,340	197,34
bordinated nds	744,966		744,966	747,874		747,874	746,504		746,50
rtgage ance bonds	198,868		198,868	152,098		152,098	115,196		115,19
ner ancial igations	67,602	111,558	179,160	61,734	123,051	184,785	55,585	106,538	162,12
tal other erest aring bilities	**Ch$ 1,949,146**	**Ch$ 1,275,551**	**Ch$ 3,224,697**	**Ch$ 2,667,816**	**Ch$ 1,596,249**	**Ch$ 4,264,065**	**Ch$ 3,300,646**	**Ch$ 1,244,091**	**Ch$ 4,544,73**

The Bank has not had breaches of capital and interest with respect to its debts instruments during year 2011 and 2012.

Table of Contents

Central Bank Borrowings

Central Bank borrowings include credit lines for the renegotiation of loans and other borrowings. The Central Bank provided credit lines for the renegotiation of mortgage loans due to the need to refinance debts as a result of the economic recession and crisis of the Chilean banking system from 1982 to 1985. These credit lines are linked to the UF index and carry an average real annual interest rate of 0.72% as of December 31, 2012. The maturities of the outstanding amounts are as follows:

	As of December 31, 2012 (in millions of Ch$)	
IFRS:		
Due within 1 year		
Due after 1 year but within 2 years	Ch$	18
Due after 2 years but within 3 years		
Due after 3 years but within 4 years		
Due after 4 years but within 5 years		
Due after 5 years		
Total long-term (Credit lines for renegotiation of loans)		
Total short-term (Other Central Bank borrowings)		**18**
Total Central Bank borrowings	**Ch$**	**18**

Borrowings from Domestic Financial Institutions

Borrowings from domestic financial institutions are generally used to fund our general operations. We currently do not have any outstanding borrowings from domestic financial institutions.

Borrowings from Foreign Financial Institutions

We have short- and long-term borrowings from foreign banks. These loans are denominated in foreign currency and are used to fund our foreign trade loans and carried an average nominal interest rate of 1.23% in the year ended December 31, 2012. The outstanding maturities of these borrowings as of December 31, 2012 were as follows:

	As of December 31, 2012 (in millions of Ch$)	
IFRS:		
Due within 1 year	Ch$	36,084
Due after 1 year but within 2 years		96,370
Due after 2 years but within 3 years		35,996
Due after 3 years but within 4 years		
Due after 4 years but within 5 years		
Due after 5 years		
Total long-term		**168,450**
Total short-term(1)		**940,213**
Total foreign borrowings	**Ch$**	**1,108,663**

(1) Includes borrowings with maturities that were originally more than one year but which as of December 31, 2012 had remaining maturities of less than one year.

Bonds

Our bonds are linked to the UF index and carried an average real annual interest rate of 3.36% as of December 31, 2012 with interest and principal payments due semi-annually. The bonds were intended to finance loans that had a maturity of more than one year.

Table of Contents

The maturities of bonds as of December 31, 2012 were:

		As of December 31, 2012 (in millions of Ch$)
IFRS:		
Due within 1 year	Ch$	237,322
Due after 1 year but within 2 years		164,200
Due after 2 years but within 3 years		292,134
Due after 3 years but within 4 years		110,060
Due after 4 years but within 5 years		248,037
Due after 5 years		1,360,480
Total bonds	**Ch$**	**2,412,233**

During 2012 Banco de Chile issued bonds in an amount of MCh$1,207,808, of which MCh$691,380 corresponds to Commercial Papers.

Subordinated Bonds

Our outstanding subordinated bonds are linked to the UF index with interest and principal payments due semi-annually. The discount on the issuance of the outstanding subordinated bonds is amortized over the life of the bond. As of December 31, 2012, the effective real interest rate was 4.73% taking into consideration the discount on issuance.

The bonds are intended to finance loans having a maturity of more than one year. As of December 31, 2012, the maturities of subordinated bonds, which are considered long-term, were:

		As of December 31, 2012 (in millions of Ch$)
IFRS:		
Due within 1 year	Ch$	38,172
Due after 1 year but within 2 years		23,621
Due after 2 years but within 3 years		24,757
Due after 3 years but within 4 years		127,969
Due after 4 years but within 5 years		23,642
Due after 5 years		508,343
Total subordinated bonds	**Ch$**	**746,504**

During 2012 Banco de Chile issued bonds in an amount of MCh$26,177, with a maturity of 25 years and an interest rate of 3.75%.

Mortgage Finance Bonds

Mortgage finance bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and thirty years. The bonds are linked to the UF index and carried a weighted average annual interest rate of 3.96% as of December 31, 2012.

The maturities of mortgage finance bonds as of December 31, 2012 were:

As of December 31, 2012
(in millions of Ch$)

IFRS:		
Due within 1 year	Ch$	27,064
Due after 1 year but within 2 years		19,633
Due after 2 years but within 3 years		15,868
Due after 3 years but within 4 years		12,299
Due after 4 years but within 5 years		9,544
Due after 5 years		30,788
Total mortgage finance bonds	**Ch$**	**115,196**

Table of Contents

Other Financial Obligations

The maturities of other financial obligations as of December 31, 2011 and 2012 were as follows:

	2010	As of December 31, 2011 (in millions of Ch$)	2012
IFRS:			
Other long-term obligations:			
Obligations with Chilean Government	Ch$ 67,602	Ch$ 61,734	Ch$ 55,585
Total other long-term obligations	67,602	61,734	55,585
Other short-term obligations	111,558	123,051	106,538
Total other obligations	**Ch$ 179,160**	**Ch$ 184,785**	**Ch$ 162,123**

As of December 31, 2012, other financial obligations had the following maturities:

	As of December 31, 2012 (in millions of Ch$)
IFRS:	
Due within 1 year	Ch$ 6,579
Due after 1 year but within 2 years	5,967
Due after 2 years but within 3 years	4,567
Due after 3 years but within 4 years	3,781
Due after 4 years but within 5 years	3,420
Due after 5 years	31,271
Total long-term	**55,585**
Total short-term(1)	**106,538**
Total other obligations	**Ch$ 162,123**

(1) Includes borrowings with maturities that were originally more than one year but which as of December 31, 2012 had remaining maturities of less than one year

Asset and Liability Management

Our asset and liability management policy is to maximize net interest income, return on assets and average equity in light of interest rate, liquidity and foreign exchange risks, within the limits of Chilean banking regulations and our internal risk management policies. Subject to these constraints, we may from time to time take mismatched positions as to interest rates or, in certain limited circumstances, foreign currencies when justified, in our view, by market conditions and prospects, and subject to our asset and liability management policies. Our board of directors determines our asset and liability policies. See Note 40 to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report.

Table of Contents

Funding

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2010, 2011 and 2012, in each case together with the related average nominal interest rates paid thereon:

	Year Ended December 31,								
	2010			2011			2012		
IFRS:	Average Balance	% of Total Liabilities	Average Nominal Rate	Average Balance	% of Total Liabilities	Average Nominal Rate	Average Balance	% of Total Liabilities	Average Nominal Rate
	(in millions of Ch$, except percentages)								
Current accounts and demand deposits	Ch$ 4,085,800	25.7%	%	Ch$ 4,540,335	24.7%	%	Ch$ 4,926,475	24.4%	%
Savings accounts and time deposits	7,382,126	46.4	2.58	8,450,231	46.0	5.11	9,380,123	46.4	5.31
Borrowings from financial institutions	1,365,835	8.6	1.38	1,715,417	9.3	1.39	1,435,362	7.1	1.55
Debt issued	1,660,440	10.4	6.61	1,994,679	10.8	7.72	2,838,170	14.0	6.00
Other financial obligations	132,200	0.8	2.48	168,858	0.9	2.26	170,977	0.8	1.86
Other interest bearing liabilities	182,956	1.2	1.10	218,847	1.2	4.96	286,944	1.4	5.22
Other non-interest bearing liabilities	1,098,484	6.9		1,298,603	7.1		1,187,619	5.9	
Total liabilities	**Ch$ 15,907,841**	**100.0%**	**%**	**Ch$ 18,386,970**	**100.0%**	**%**	**Ch$ 20,225,670**	**100.0%**	**%**

Our most important source of funding are customer deposits, which consist primarily of peso-denominated, non-interest bearing current accounts and demand deposits and Chilean peso and UF-denominated interest bearing time deposits and savings accounts. Current accounts and demand deposits represented 24.4% of our average total liabilities in 2012, and are our least expensive source of funding. Savings accounts, time deposit and debt issuances represented 56.8%, 56.8% and 60.4% of our average liabilities in 2010, 2011 and 2012, respectively.

Table of Contents

Capital Expenditures

For information on our capital expenditures, see Item 4. Information on the Company History and Development of the Bank Capital Expenditures.

RECENT DEVELOPMENTS

New Consumer-Oriented Regulation

On December 5, 2011, Law 20.555 was published in the *Diario Oficial*, amending the Chilean Consumer Protection Law. The most significant changes enacted by Law 20.555 are:

- new agreements entered into by banks and consumer must fully disclose the costs that the consumer assumes, as well as the periodicity, and the mechanisms to modify them. In addition, new agreements must fully disclose all terms , events of default, events of early termination, and automatic payments;
- banks must inform consumers periodically as to the complete, detailed cost of the banking product, as well as of the cost of the services rendered. The information must include the cost that the consumer will assume if he terminates the agreement before the end of its term;
- before rendering a service or delivering a product, banks must give the consumer a quote, which must include costs, rates, and conditions;
- banks must terminate the rendering of a service if the consumer so wishes;
- banks must inform guarantors as to their rights and obligations before they assume the role of guarantor;
- irrevocable mandates and mandates in blank are prohibited by the law;
- when consumers execute standard form contracts, banks must explain, in writing, the main provisions of the agreement; and
- banks may only modify fees and costs of services and banking products if the mechanisms to modify them are based on objective and verifiable factors previously agreed to in the agreement. In addition, the cost of banking services and products may not be modified without the consent of the consumer.

This amendment became effective on March 5, 2012, however, with regards to the banking product agreements entered into before said date, the regulation does not affect the substantive rights acquired by the parties in those agreements.

On July 2012 the government enacted the regulations that implement Law 20,555, which address mortgage loans, consumer loans, credit cards, the Sernac Seal (Sello Sernac), and other financial products and services. The new regulations govern, among other matters, the form and content of communications that financial institutions must periodically provide to their customers. Likewise, the new regulations implement the so-called Summary Sheet (*Hoja Resumen*), which must precede the contracts that consumers enter into with financial institutions. The Summary Sheet is intended to provide a clear and understandable summary of the terms and conditions that govern financial products and services.

The Sernac Seal is a new concept introduced by Law 20,555 and consists of a non-mandatory certification granted by the Chilean government agency in charge of consumer protection (*Servicio Nacional del Consumidor,* Sernac), by which that agency confirms that the contracts used by a financial institution when providing products and services comply with the Consumer Protection Act. In this regard, the new regulation establishes the specific requirements for financial institutions to obtain such certification as well as the events that may lead to its termination. Among the requirements to obtain the certification, financial institutions must provide a consumer service and adopt a dispute resolution procedure as defined by Law 20,555 and its regulation.

Table of Contents

All of these regulations are already implemented by Banco de Chile, except Sernac Seal, which is not mandatory. We do not expect these new regulations will have an adverse effect on our business, financial condition and results of operation.

TREND INFORMATION

We believe we have developed strong competitive advantages that will allow us to remain a relevant player within the Chilean banking industry. We are continuously seeking additional improvements in matters such as operating efficiency, productivity, profitability and service quality by developing new customer oriented service models, launching new financial products and services and implementing high quality information technologies. Our business environment is increasingly competitive and an active market for mergers and acquisitions tends to encourage large financial groups. In addition, competition from non-banking companies, mainly those involved in the retail industry, has encouraged us to develop improved value propositions to satisfy our customers needs.

The following trends may also have an impact on the Chilean economy and the economic growth of its trade partners, and could therefore affect our business, operating results or financial condition:

- The fragile recovery of the global economy. Unforeseeable financial events, such as the current uncertainty about the financial condition of some European countries and the slowdown observed in the Chinese economy, affect financial markets.

- The impact on worldwide consumption and foreign trade caused by the elimination of monetary and fiscal stimulus in both developed and developing economies.

We believe that Chile and its financial industry have proved to be successful in facing worldwide financial contingencies because of its strict fiscal policy, forward-looking and independent monetary policy, as well as strong regulation and supervision related to the financial industry.

In addition, the recent international trend of improved protection of consumers financial rights has become increasingly significant in Chile. If this trend leads to changes by Chilean financial regulators, these changes could affect our future operating results.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we are party to a number of off-balance sheet arrangements that present credit, market and operational risks that are not reflected in our consolidated financial statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit, and long-term contractual obligations under operating leases or service contracts.

We provide customers with off-balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with contractual terms. Since substantial portions of these commitments are expected to expire without us having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. The amounts of these loan commitments were Ch$4,881,220 million as of December 31, 2011 and Ch$5,481,235 million as of December 31, 2012. See Note 26 to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report. The amounts of subscribed leasing contracts were Ch$209,398 million as of December 31, 2011 and Ch$246,296 million as of December 31, 2012.

Interest rate and cross-currency swaps, which are entered into in order to hedge our foreign investment portfolio, are recorded at their estimated fair market values. See Note 8 to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report.

The credit risk of both on and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer s creditworthiness. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory and accounts

Table of Contents

receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is requested when appropriate. For further information, see Note 26 to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report.

Financial Guarantees

The following is a summary of the nominal value of instruments that are considered financial guarantees and which are accounted for in off-balance sheet accounts:

	As of December 31, 2012 (in millions of Ch$)
Performance bonds	Ch$ 1,437,312
Foreign office guarantees and standby letters of credit	323,924
Total	**Ch$ 1,761,236**

Guarantees in the form of performance bonds, standby letters of credit and foreign office guarantees are issued in connection with agreements made by customers to counterparties. If the customer fails to comply with the agreement, the counterparty may enforce the performance bonds, standby letters of credit or foreign office guarantees as a remedy. Credit risk arises from the possibility that the customer may not be able to repay us for these guarantees.

The expiration of guarantees per period is as follows:

	Due within 1 year	Due after 1 year but within 3 Years	Due after 3 years but within 5 years	Due after 5 years	Total
			(in millions of Ch$)		
Performance bonds	Ch$ 1,032,982	340,060	57,316	6,954	Ch$ 1,437,312
Foreign office guarantees and standby letters of credit	178,157	136,002	9,069	696	323,924
Total	**Ch$ 1,211,139**	**476,062**	**66,385**	**7,650**	**Ch$ 1,761,236**

As of December 31, 2012, the Bank did not have significant concentrations by country.

Table of Contents

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following tables set forth our contractual obligations and commercial commitments by time remaining to maturity. As of December 31, 2012, the scheduled maturities of our contractual obligations, including accrued interest, were as follows:

IFRS:	Due within 1 year	Due after 1 year but within 3 Years	Due after 3 years but within 5 years	Due after 5 years	Total	Estimated Interest Payment
			(in millions of Ch$)			
Contractual Obligations						
Current accounts and other demand deposits	Ch$ 5,470,971				Ch$ 5,470,971	
Transactions in the course of payments	159,218				159,218	
Savings accounts and time deposits	9,214,998	397,643	279	30	9,612,950	374,694
Bonds issued						
Mortgage finance bonds	27,064	35,501	21,843	30,788	115,196	32,922
Subordinated bonds	38,172	48,378	151,611	508,343	746,504	456,597
Bonds	39,982	456,334	358,097	1,360,480	2,214,893	499,328
Commercial papers (Short-term bonds)	197,340				197,340	44,489
Hedge(*)						
Inflows						
Corporate bond MXN	(3,053)	(58,199)			(61,252)	
Corporate bond HKD	(3,149)	(6,309)	(6,332)	(110,408)	(126,198)	
Corporate bond PEN	(1,138)	(2,276)	(16,358)		(19,772)	
Outflows						
Cross currency swap MXN	3,053	58,199			61,252	
Cross currency swap HKD	3,149	6,309	6,332	110,408	126,198	
Cross currency swap PEN	1,138	2,276	16,358		19,772	
Borrowings from financial institutions	976,315	132,366			1,108,681	
Other obligations	113,117	10,534	7,201	31,271	162,123	
Lease contracts	26,054	37,094	27,066	49,523	139,737	
Services contracts	6,676	4,242			10,918	
Payables from repurchase agreements and security lending	224,793	1,603			226,396	
Total	**Ch$ 16,494,700**	**Ch$ 1,123,695**	**Ch$ 566,097**	**Ch$ 1,980,435**	**Ch$ 20,164,927**	**Ch$ 1,408,030**

(*) See note 8(c) of the Consolidated Financial Statements

Table of Contents

Item 6 Directors, Senior Management and Employees

DIRECTORS AND SENIOR MANAGEMENT

Directors

Our administration is conducted by our board of directors, which, in accordance with our *estatutos* (bylaws), consists of eleven directors and two alternate directors. The entire board of directors is elected every three years. Our current board of directors was elected in March 2011 and its term expires in March 2014.

Cumulative voting is permitted for the election of directors. Our chairman and our chief executive officer are appointed by our board of directors and hold their offices at its discretion. Scheduled meetings of our board of directors are held at least twice a month. Extraordinary board of directors meetings may be called by the chairman, when requested by a majority of the directors, or, in limited circumstances, when requested by a single director.

Our current directors are as follows:

Director	Position	Committee Memberships	Age
Pablo Granifo L.	Chairman	11	54
Andronico Luksic C.	Vice Chairman	1	59
Francisco A. Aristeguieta	Vice Chairman	1	57
Jorge Awad M.	Director	3	67
Jorge Ergas H.	Director	3	44
Jean Paul Luksic F.	Director	1	48
Raúl Anaya E.	Director	8	59
Gonzalo Menendez D.	Director	4	64
Fernando Concha U	Director	3	54
Francisco Perez M.	Director	2	55
Jaime Estévez V.	Director	4	66
Rodrigo Manubens M.	Alternate Director	1	54
Thomas Fürst F.	Alternate Director	1	82

Pablo Granifo L. was reelected as the chairman of our board of directors in 2011, a position which he has held since 2007. He was our chief executive officer from 2001 to 2007, chief executive officer of Banco de A. Edwards from 2000 to 2001, commercial manager at Banco Santiago from 1995 to 1999 and corporate manager at Banco Santiago from 1999 to 2000. Mr. Granifo is also chairman of the board of directors of Banchile Asesoría Financiera S.A., Socofin S.A., Banchile Securitizadora S.A., Banchile Factoring S.A., Banchile Administradora General de Fondos S.A., chairman of the executive committee of Banchile Corredores de Seguros Limitada, and a member of the board of directors of Compañía Cervecerías Unidas S.A., Viña San Pedro Tarapacá S.A., Empresa Nacional de Energía Enex S.A., and the Santiago Stock Exchange. He holds a degree in business administration from the Pontificia Universidad Católica de Chile.

Andrónico Luksic C. has been a director and the vice chairman of our board of directors since 2002. Mr. Luksic is also chairman of LQIF, Quiñenco S.A. and Compañía Cervecerías Unidas S.A., vice chairman of Compañía Sud Americana de Vapores S.A. and a member of the board of directors of Madeco S.A., and Sociedad de Fomento Fabril (SOFOFA). Mr. Luksic is a member of the APEC Business Advisory Council (ABAC) and Vice President of the International Business Leaders Advisory Council for the Mayor of Shanghai. He is also a member of the International Advisory Council of Barrick Gold, the Brookings Institution, the Panama Canal Authority and the Chairman s International Council of the Council of the Americas. Mr. Luksic is a member of the board of trustees of Babson College, the Harvard Global Advisory Council, the Dean s Council at Harvard Kennedy School, the Advisory Committee at Harvard Business School, the Advisory Committee of the David Rockefeller Center of Harvard University, the Advisory Council of the School of Economics and Management of Tsinghua University, and a member of the Latin American Executive Board of MIT Sloan School of Management. Mr. Andrónico Luksic and Mr. Jean Paul Luksic are brothers.

Table of Contents

Francisco A. Aristeguieta has been a member and vice chairman of our board of directors since April 2012. As the Chief Executive Officer of Citigroup Latin America, since January 2012, Mr. Aristeguieta has been responsible for all businesses and products in the 23 countries where Citigroup has a presence. Mr. Aristeguieta was previously Citigroup s Region Head of Global Transaction Services (GTS) for Latin America and Mexico, a member of the Comité Ejecutivo of Banco Nacional de México (Banamex), a member of the GTS Executive Committee, and Citigroup s CEO of Colombia and the Andean Region Cluster, which then consisted of Venezuela, Peru, Ecuador and Bolivia. Prior to this role, Mr. Aristeguieta was the Chief Country Officer (CCO) in Venezuela and before that, in Ecuador. Mr. Aristeguieta is a member of Citi s Global Operating Committee and has been a member of the Young President Organization (IPO) since 2003. In addition, he serves on the Board of Directors of Junior Achievement Americas and has served on several other Boards, including the Banking Associations and American Chambers of Commerce of Ecuador, Colombia and Venezuela, and the Consejo de Empresas Americanas de Colombia (CEA). Mr. Aristeguieta holds an MBA from Brunel University in London, England, and both a graduate degree in Finance and Banking and an undergraduate degree in Business Administration from the Universidad Metropolitana in Caracas, Venezuela.

Jorge Awad M. has been a member of our board of directors since 1996. From 1989 to 1996, he was a member of the board of directors of Banco de Santiago. Since 2011, Mr. Awad has been the chairman of the Chilean Bankers Association. He is a member of the board of directors of Icare, Talca University and UCV TV. Previously, Mr. Awad was a director of Codelco Chile, Television Nacional de Chile, Laboratorio Chile S.A. and other Chilean companies. Previously, Mr. Awad was the chairman of Lan Airlines S.A. for eighteen years until 2012. He is also a professor of management at Universidad de Chile Economics School from which he obtained a degree in commercial engineering.

Jorge Ergas H. was appointed member of our board of directors on March 2011 after having served as an advisor to the board of directors since 2007 and from 2002 to 2005. From 2005 to 2007, Mr. Ergas was an Alternate Director. Mr. Ergas is currently the Vice-Chairman of Banchile Compañía de Seguros de Vida S.A., Vice-Chairman of Orion Seguros Generales S.A., President of Movicenter and a director of Inersa S.A., Nido de Águilas Educational Foundation, and Ever I BAE. Mr. Ergas was previously a director of the Plaza San Francisco Hotel, CasaPiedra Convention Center, HNS Bank and Inmobiliaria Paidahue.

Jean Paul Luksic F. was appointed member of our board of directors on April 2013. Mr. Luksic is vice chairman of Quiñenco S.A. and Sociedad Matriz SAAM S.A. Mr. Luksic has been chairman of the board of directors of Antofagasta plc since 2004, after having served as director for the company since 1990 and Deputy Chairman since 2000. Mr. Luksic was the Chief Executive Officer of Antofagasta Minerals until his appointment as Chairman of Antofagasta plc. He is also chairman of the board of Antofagasta Minerals, Ferrocarril de Antofagasta a Bolivia, and Aguas Antofagasta, as well as chairman of the Mining Council. Mr. Luksic holds a B.Sc. degree in management and science from the London School of Economics.

Raúl Anaya E. has been a member of our board of directors since January 2008. He has been with Citigroup for 25 years and currently serves as the Latin American chief executive officer for the Consumer and Commercial Banking division. Mr. Anaya has previously served as head of global retail banking and chief executive officer of Citigroup s Global Consumer Banking Council. He has also served as CEO of Citigroup Inc. s businesses in Central America and the Caribbean, covering corporate, investment and consumer banking. From December 2005 to July 2008, Mr. Anaya was the CEO of Latin America s (except Brazil and Mexico) Consumer Group. Mr. Anaya was named to his position after serving as Retail Head for Latin America since February 2005. From August 2003 to January 2005, he was Executive Director of Consumer Assets at Banamex in Mexico and responsible for mortgages, personal loans and car financing. Prior to this position, Mr. Anaya served as Division Director for the Central Metropolitan Retail Banking Division at Banamex. From May 1999 to January 2002, he was Chairman and CEO of Banco Bansud S.A. (formerly a subsidiary of Banamex) in Argentina. Mr. Anaya joined Citibank at Banamex s New York Agency in October 1987 and later became General Manager of the Banamex Agency in Los Angeles, Executive Vice-President of the Corporate Banking and International Division at California Commerce Bank, General Manager of the Banamex Agency in Houston and General Manager of the Banamex Agency in New York.

Gonzalo Menendez D. has been a member of our board of directors since 2001. He is also the chairman of the board of directors of Inversiones Vita S.A. and a member of the boards of directors of several other companies, including Banchile Asesoría Financiera S.A., Banchile Factoring S.A., Banchile Seguros de Vida S.A., Quiñenco

S.A., Compañía Sudamericana de Vapores S.A., Sudamericana Agencias Aéreas y Marítimas S.A., Antofagasta PLC, Mining Group Antofagasta Minerals S.A., Antofagasta Railway, Aguas de Antofagasta S.A., Andsberg Investment Ltd., SAAM S.A., and Andsberg Limited. He is also vice chairman of Fundación Andronico Luksic A. and Fundación Pascual Baburizza. Previously, Mr. Menendez served as chief executive officer of Antofagasta Railway to Bolivia, Banco O Higgins and Empresas Lucchetti. Since 1990, he has been a director and is now the chairman of the board of directors of the Banco Latinoamericano de Comercio Exterior, S.A. Bladex. Mr. Menendez was a member of the board of directors and the executive committee of Banco Santiago and a member of the board of directors of Banco de A. Edwards. Mr. Menendez was a professor of finance and Chilean economic and business policy at the Universidad de Chile. He holds a degree in business administration and accounting from the Universidad de Chile.

Fernando Concha U. was appointed member of our board of directors in March 2011. Mr. Concha is managing director of Citigroup Chile and a member of the Accival Brokerage House Executive Committee and Wealth Management in Mexico. Prior to this position, Mr. Concha was the chief executive officer of Citigroup for the Andean, Central America & Caribbean Region and the South America Region, excluding Brazil. From January to July 2008, he worked for Banco de Chile as head of corporate and investment banking after the merger with Citibank Chile. In addition, Mr. Concha was the Citigroup Country Officer for Chile from April 2006 to December 2007, after working in Banamex-Citigroup, Mexico City, for over eight years in different capacities. His last position was as Mexico Regional Treasurer. Throughout his professional career, Mr. Concha has occupied positions of leadership, serving as country treasurer and head of capital markets Citibank in Mexico and Divisional Treasurer with Citibank Latin America North Division in Miami, FL. Prior to his international assignment, Mr. Concha was the head of investment banking with Citibank Chile. From 1986 to 1992, he worked as a Senior Investment Officer for AFP Provida. He was also appointed member of the board of the Mexican Derivatives Market, Mex-Der, President of the Brokerage House for Citibank Mexico and Vice Chairman of the Bolsa Electrónica de Chile, Bolsa de Valores. Currently he is a member of the Techo Business Council. Mr. Concha has a degree in Business Administration from the Pontificia Universidad Católica de Chile and has received training in different Executive Programs in the U.S., Europe and Latin America.

Francisco Perez M. has been a member of our board of directors since 2001. Since 1998, Mr. Perez has also served as the chief executive officer of Quiñenco S.A. Mr. Pérez is also chairman of the board of directors of Compañía Sud Americana de Vapores S.A. and Empresa Nacional de Energía Enex S.A., and vice chairman of Madeco S.A.. He was formerly the chief executive officer of Compañía Cervecerías Unidas S.A., of which he is still a director. Prior to 1991, Mr. Perez was chief executive officer of Citicorp Chile and also was vice president of Bankers Trust in Chile. Mr. Perez holds a degree in business administration from the Pontificia Universidad Católica de Chile and a master s degree in business administration from the University of Chicago.

Jaime Estévez V. has been a member of our board of directors since 2007 and is currently the chairman of the board of directors of Cruzados SADP. Previously, Mr. Estévez was chairman of the board of directors of Banco Estado, a Chilean government-owned bank. Additionally, he has served as a director AFP Provida and AFP Protección, two Chilean private investment pension funds, and as director of Endesa Chile S.A. Mr. Estévez was Minister of Public Works from January 2005 to March 2006, and simultaneously, as Minister of Transportation and Telecommunications. He was also a congressman from March 1990 to March 1998 and president of the Lower Chamber of Congress from March 1995 to November 1996. Mr. Estévez holds a degree in economics from the Universidad de Chile.

Rodrigo Manubens M. has been a member of our board of directors since 2001. He is the chairman of Banchile Compañía de Seguros de Vida S.A. and a director and chairman of the Director Committee of Aguas Andinas S.A. Mr. Manubens was a member of the board of directors of Banco de A. Edwards from 1999 until 2001. From 1985 to 1999, Mr. Manubens was a member of the board of directors of Banco O Higgins and retained such position following the merger between Banco O Higgings and Banco Santiago. From 1995 to 1999, he was chairman of Banco Tornquist in Argentina and a member of the board of directors of Banco Sur in Peru and Banco Asunción in Paraguay. Mr. Manubens also served as a director and chairman of the board of directors of Endesa Chile S.A for ten years. Mr. Manubens holds a degree in business administration from Universidad Adolfo Ibañez and a master s degree from the London School of Economics and Political Science.

Thomas G. Fürst has been a member of our board of directors since 2004. Previously, Mr. Fürst was the vice chairman of the board of directors of Compañía Cervecerías Unidas S.A. and a member of the board of

Table of Contents

directors of several other companies, including Embotelladoras Chilenas Unidas S.A., Viña Dassault-San Pedro S.A, Southern Breweries Establishment, CCU Argentina S.A. and Compañía Industrial Cerveceria S.A. (CICSA). Mr. Fürst was a founder and member of the board of directors of Parque Arauco. In addition, he is a partner and member of the board of directors of Plaza S.A. and Nuevos Desarrollos S.A. Mr. Fürst holds a degree in civil construction from Pontificia Universidad Católica de Chile.

Former director

On March 27, 2013 Mr. Guillermo Luksic, a distinguished member of our board of directors since 2001 and a member of the controlling group of our bank, passed away.

Senior Management

Our current executive officers are as follows:

Executive Officers	Position		Age
Arturo Tagle Quiroz	Chief Executive Officer		54
Pedro Samhan E	Chief Financial Officer		62
Nelson Rojas P.	General Legal Counsel		59
Mauricio Baeza L.	Manager	Corporate Credit Risk Division	50
Jorge Tagle O.	Manager	Commercial Division (Individual and SME Banking)	43
Patricio Melo G.	Manager	Operations and Technology Division	53
Cristián Lagos C.	Manager	Human Resources Division	47
Eduardo Ebensperger O.	Manager	Wholesale, Large Corporations and Real Estate Division	47
Juan Cooper A.	Manager	Consumer Finance Division	51
Felipe Echaiz B.	Manager	Global Compliance Division	46
Vacant	Manager	Corporate and Investment Banking Division	
Oscar Mehech C.	Manager	Risk Control Division	48

Arturo Tagle Q. was appointed our Chief Executive Officer in May 2010. From November 2009 to April 2010, he was the Managing Director of our Institutional and Investors Relations Division, and from 2008 to November 2009 he was the Managing Director of our Strategic Development Division. From 2002 to 2007, Mr. Tagle was our Chief Financial Officer and from 1998 to 2001 he was head of our Internal Audit and Control Division. Mr. Tagle joined us in 1995. From 1990 to 1994, he was General Manager of the Chilean Bankers Association, and from 1984 to 1989 Director of Research at the Superintendency of Banks. Mr. Tagle is also the Chief Executive Officer of Sociedad Matriz del Banco de Chile S.A. and SAOS since 1996. He holds a degree in Business Administration from the Pontificia Universidad Católica de Chile and a master s degree in Business Administration from the University of Chicago.

Pedro Samhan E. was appointed our chief financial officer in January 2008. In August 2008, he was appointed as director of Banchile Trade Services Limited. Prior to his current position, Mr. Samhan was the chief financial officer of Citigroup Chile for several years. He served as a member of the board of directors of Cruz Blanca Seguros de Vida from 1994 to 1997, AFP Habitat from 1996 to 2006 and Compañía Minera Las Luces from 1994 to 1996. Mr. Samhan was chief financial officer of Citicorp for Caribbean and Central America from 1990 to 1993 and investment banking head of Citicorp Chile from 1988 to 1990. Mr. Samhan holds a degree in civil industrial engineering from Universidad de Chile.

.Nelson Rojas P. has been our general counsel and secretary of our board of directors since 2004. In 2002, he joined us as deputy general counsel. Mr. Rojas joined Banco de A. Edwards in 1987 and was the general counsel and secretary of the board of directors of Banco de A. Edwards from 1997 to 2002. He is also vice president of the legal affairs committee of the Chilean Bank Association. Mr. Rojas holds a degree in law from the Universidad de Chile.

Table of Contents

Mauricio Baeza L. has been the manager of our Credit Risk Division since December 2005. Mr. Baeza joined us in 1997 and was manager of the risk division of Banco de A. Edwards during 2001. He was risk manager at Banco Santiago from 1993 to 1997. He is the secretary of our director s loan committee, SOCOFIN S.A. Committee Advisor, Finance, International and Financial Risk Committee Advisor, and participates of the Portfolio Risk Committee and the Operational Risk Committee. Currently he is Chairman of the Risk Comitte of the Chilean Banking Association. Mr. Baeza is also a member of the Investment committee of Banchile Fondo Inmobiliario and he is a director of the Foundation Villa Padre Hurtado a charity organization. Mr. Baeza holds a degree in civil engineering from the Pontificia Universidad Católica de Chile.

Jorge Tagle O. leads our Commercial Division (Individual and SME Banking), including Marketing, Individual and Small and Medium-Sized Companies and Branches since September 2012, and before that he was our Vice-Chief Executive Officer since October 2011. Previously, Mr. Tagle served in different executive positions mainly within the Luksic Group. From September 2008 to August 2011, he was Executive Vice-President of Nexans S.A.. Between 2005 and 2008, he was Corporate General Manager of Alusa S.A. From 2002 to 2005, he was Chief Financial Officer of industrial conglomerate Madeco S.A. From 1999 to 2002, he was the Manager for New Projects at Quiñenco S.A. the holding company of the Luksic Group. Mr. Tagle holds a degree in civil industrial engineering from the Pontificia Universidad Católica de Chile and a master s degree in Business Administration from Wharton School, University of Pennsylvania.

Cristián Lagos C. joined us as manager of our Human Resources Division in May 2012. From 2008 to March 2012 he was the Corporate People and Reputational Manager of Compañía General de Electricidad S.A. Before that, he was the Manager of the Planification and Human Resources Division of Banco Sudaméricano, and after the merger between this Bank and Scotiabank, he occupied the same position in the latter. Additionally, he was the Human Resources manager of Chilesat S.A., and Corporate Manager of Telmex S.A after the merger of Chilesat S.A. with said company. Mr. Lagos is a psychologist of the Diego Portales University, and he participated in the PDD Program of ESE.

Patricio Melo was appointed manager of our Operations and Technology Division on July 1, 2008. He was chief executive officer for Altec Brasil SA from 2006 to June 2008, and was responsible for technological management of Banco Santander in Brazil. He was chief executive officer for Altec Chile from 2001 to 2005. From 1992 to 2000, he joined Banco Santander in Chile and Perú as an operations and technology manager. Mr. Melo is the chairman of the Operations and Technology Committee of the Chilean Banking Association. He has also been a member of various boards of directors such as that of Redbanc S.A., ALTEC México and ALTEC Chile. Mr. Melo holds a degree in electronic engineering from the Universidad Federico Santa María.

Eduardo Ebensperger O. has been the Managing Director of the Wholesale, Large Companies and Real Estate Division since January 2008; before he was Manager of the Middle Market Companies Division from 2005 to 2007, and was previously the Chief Executive Officer of Banchile Factoring S.A. from 2002 to 2005. He joined Banco de A. Edwards in 1989. Mr. Ebensperger was Manager of the Medium Size Companies Division and Manager of the regional branches of Banco de A. Edwards from 1997 to 2001. Presently, Mr. Ebensperger is the Chairman of the Board of Directors of Artikos S.A. He is also currently a member of the Board of Banchile Citi Global Markets (Banchile Asesoría Financiera S.A.), Banchile Factoring S.A. and Banchile Securitizadora S.A., and he is a member of the Leasing Committee and GTS Committee. Mr. Ebensperger holds a degree in Business and Economic Science from the Universidad de Chile.

Juan Cooper A. has been the manager of our Consumer Finance Division Banco CrediChile since 2003. He was the chief executive officer of Altavida Santander Compañía de Seguros de Vida S.A. from 2001 to 2002 and the manager of Santiago Express, the consumer division of Banco Santiago, from 1997 to 2000. He is also currently a member of the board of directors of Socofin S.A., and a member of the executive committee of Banchile Corredores Seguros Limitada. Mr. Cooper has a degree in business administration from the Universidad de Chile and a master s degree in business administration from the Pontificia Universidad Católica de Chile.

Table of Contents

Felipe Echaiz B. has been the manager of our Global Compliance Division since January 2008. He joined us as a result of our merger with Citibank Chile. Mr. Echaiz worked at Citibank for ten years and was Citigroup Inc. s country compliance officer from 2006 to 2007. In 2003, he was the deputy director to the Anti-Money Laundering and Organized Crime Unit at the Public Prosecutor s Office. Mr. Echaiz is a member of the executive committee for Anti-Money Laundering of the Chilean Banks Association and holds a degree in law from the Pontificia Universidad Católica de Chile and a master s degree in finance and economics from the Universidad de Chile.

Oscar Mehech C. was appointed head of our Risk Control Division in July 2008 after holding various positions with us, which include being head of our Regulatory Policies Division, head of our Global Compliance Division and deputy general counsel. Prior to joining us in 2002, he was deputy general counsel at Banco de A. Edwards. Mr. Mehech is the chairman of the internal audit committee of the Chilean Banking Association and a member of the surveillance committee of Depósito Central de Valores S.A. He holds a law degree from Universidad de Chile and a master s degree in business administration from the Pontificia Universidad Católica de Chile.

COMPENSATION

The table below presents the amount of compensation, as established by our shareholders, to the members of our board of directors for the year ended December 31, 2012. These amounts include remuneration for services, fees for attendance at meetings of our board of directors, meetings of committees of our board of directors and meetings of board of directors of our subsidiaries, consulting services and travel expenses.

Name of Director	Remuneration	Fees for Attending Meetings of our Board of Directors	Fees for Attending Meetings of Committees of our Board of Directors and Meetings of the Board of Directors of our Subsidiaries	Total
		(in millions of Ch$)		
Pablo Granifo Lavín	Ch$ 358	Ch$ 45	Ch$ 294	Ch$ 697
Andrónico Luksic Craig	147	8		155
Jorge Awad Mehech	49	23	110	182
Jorge Ergas Heymann	49	17	47	113
Jaime Estévez Valencia	49	23	92	164
Guillermo Luksic Craig	49	4		53
Rodrigo Manubens Moltedo	49	23	49	121
Gonzalo Menéndez Duque	49	21	112	182
Francisco Pérez Mackenna	49	17	50	116
Thomas Fürst Freiwirth	49	18	37	104
Jacob Ergas Ergas			9	9
Other subsidiary directors			165	165
Total	**Ch$ 897**	**Ch$ 199**	**Ch$ 965**	**Ch$ 2,061**

Consistent with Chilean law, we do not disclose to our shareholders, or otherwise make public, information regarding the compensation of our executive officers. For the year ended December 31, 2012, the aggregate amount of compensation paid to our executive officers, including the executive officers of our subsidiaries, was Ch$8,359 million. Pursuant to the Chilean Corporations Law, our directors/audit committee must approve compensation plans, but we are not required to have a compensation committee. For the year ended December 31, 2012, no amounts were set aside or accrued by us to provide pension, retirement or similar benefits for our directors and officers. None of our directors is a party to any agreement with us or any of our subsidiaries that provides for benefits upon termination of his appointment as a director.

Table of Contents

Indebtedness of Directors and Executive Officers

As disclosed in Note 38(c) to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report, we incurred an aggregate of Ch$119,768 million in expenses and Ch$112,391 million in income from transactions other than loans with related parties in 2012.

As authorized by the General Banking Law, and within applicable regulatory limits, we also hold several outstanding loans owed by different affiliated corporations. All such loans:

- were made in the ordinary course of business;
- were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons; and
- did not involve more than the normal risk of collectability or present other unfavorable features.

We held an aggregate of Ch$333,192 million in net loans (provisions for loan losses not deducted) to related parties, including Ch$66,586 million in collateral pledged by related parties, as of December 31, 2012. See Note 38(a) to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report for details concerning these transactions.

For a further description of transactions with related parties, including directors, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

Table of Contents

BOARD PRACTICES

Governance Practices

The board of directors delegates certain functions and activities to our committees to research, evaluate and report to the board of directors regarding specific matters which may affect our businesses.

The Directors/Audit Committee

Prior to March 24, 2005, our directors committee and audit committee were separate committees performing independent functions for the board of directors. On March 24, 2005, the board of directors approved the merger of our directors committee with our audit committee, forming the directors/audit committee. The directors/audit committee s primary objectives are to seek the efficiency, maintenance, application and functioning of our internal control systems and compliance with applicable rules and procedures governing our business; to identify our business risks; to supervise the activities of both the Risk Control Division and the Global Compliance Division, ensuring their independence from management; to serve as an mediator and coordinator of tasks between the internal audit work and our independent auditors; and to act as a communication channel between our internal audit team, our independent auditors and our board of directors.

Our directors/audit committee is composed of three members appointed by the board of directors. The directors/audit committee is currently composed of the following individuals:

- Jorge Awad M. (chairman and financial expert);
- Jaime Estevez V.; and
- Fernando Concha U.

Mr. Awad and Mr. Estevez were appointed as members of the directors/audit committee by our board of directors at the meeting held on April 12, 2007. Mr. Concha was appointed to the directors/audit committee by our board of directors at the meeting held on October 25, 2012.

Messrs. Awad and Estevez satisfy the independence requirements of both Chilean law and Rule 10A-3 under the Exchange Act and are full voting members of our directors/audit committee.

Mr. Fernando Concha is exempt from the independence requirements of Rule 10A-3 of the Exchange Act pursuant to the exemption under Rule 10A-3(b)(1)(iv)(D). Pursuant to that exemption, Mr. Concha is a non-voting member of our directors/audit committee with respect to all matters required to be addressed by our directors/audit committee under U.S. federal securities laws.

The directors/audit committee met 28 times during 2012. The budget of the directors/audit committee is approved annually at the ordinary annual shareholders meeting. The directors/audit committee satisfies the applicable requirements of the Superintendency of Banks and operates pursuant to a charter document. The Superintendency of Banks recommends that at least one of the members of the directors/audit committee be experienced with respect to the accounting procedures and financial aspects of banking operations. The directors/audit committee submits a report regarding its activities to our board of directors after each directors/audit committee meeting and presents an annual report at our ordinary annual shareholder s meeting. As established in the directors/audit committee s charter, the chief executive officer, the general counsel and the manager of our Risk Control Division, or their respective deputies, shall also attend the directors/audit committee meetings. The directors/audit committee may also invite other persons to attend meetings.

The directors/audit committee may appoint independent personnel to carry out specific duties. The directors/audit committee s specific objectives include:

- Seeking efficiency, maintenance, application and functioning of our internal control systems, and compliance with rules and procedures;

Table of Contents

Supervising compliance with rules and procedures governing the banking business and identifying the business risks of our and our subsidiaries activities;

Supervising the activities of our Corporate Credit Risk Division and Individual Credit Risk Division, ensuring their independence from management;

Supervising the activities of the Global Compliance Division, serving as an intermediator and coordinator of tasks between our internal audit work and our independent auditors, and acting as communication channel between these teams and our board of directors;

Examining the fees budget for our independent auditors and the credit rating agencies;

Analyzing the reports, content, procedures and scope of the revisions by our independent auditors and credit rating agencies;

Analyzing and generating information on the annual internal audit program and the results of internal audits and revisions;

Analyzing the interim and annual financial statements;

Analyzing our financial statements included in the Form 20-F, for presentation to the SEC;

Gathering information on accounting changes occurring during the year and their effects;

Reviewing issues affecting the internal control systems;

Analyzing the remuneration systems and compensation plans for managers and executive officers;

Analyzing the 2012 annual performance self-evaluation process;

Analyzing related party transactions in reference to Title XVI of Chilean Corporations Law;

Analyzing policies relating to operational risk and progress in the risk-management process and SOX self-evaluation, in the context of Basel II;

Analyzing and informing on matters related to the Global Compliance Division, principally regarding the revision of policies for detecting and sanctioning money laundering transactions; and

Reviewing customer claims filed with the Superintendency of Banks and the Customer defense Division of the Chilean Association of Banks and Financial Institutions.

Portfolio Risk Committee

The main function of the portfolio risk committee is to inform our board of directors of changes in the composition and risk of our loan portfolio, and our corresponding global exposure, sector-specific exposure or business-specific exposure. The portfolio risk committee closely reviews the performance of our principal debtors, overdue loan ratios, past-due loan indicators, write-offs and allowances for loan losses.

The portfolio risk committee prepares proposals for discussion with, and approval by, our board of directors with respect to credit policies, portfolio evaluation methods and the calculation of allowances for expected loan losses. The portfolio risk committee also performs analysis of the adequacy of allowances, authorizes extraordinary charge-offs of loans once recovery attempts have been exhausted and controls the liquidation of assets acquired in lieu of payment.

The portfolio risk committee meets on a monthly basis and is composed of the chairman of our board of directors, our chief executive officer, one additional director, the manager of our Corporate Credit Risk Division, the manager of our Individual Credit Risk Division and the manager of our Risk Control Division.

Table of Contents

Credit Committees

Our governance structure relating to the evaluation process of commercial loans is based on the segments and risks involved. Each credit decision should be made with the participation of committee members with sufficient authority over a particular type of loan.

A member of the Corporate Credit Risk Division is required to approve most credit decisions exceeding UF 6,000. Such decisions are made by different loan committees, the highest of which, in terms of hierarchy, is the board loan committee, composed of our chief executive officer, the manager of our Corporate Credit Risk Division and at least three members of our board of directors, all of whom review all transactions exceeding UF 750,000 on a weekly basis. Any member of the board of directors may participate in the board loan committee.

The Corporate Credit Risk Division participates independently and autonomously in each committee from our business areas.

For retail banking, we have loan committees that in exceptional cases review individual customers when they do not meet our customer profile policies, payment behavior requirements or maximum financing amounts.

Finance, International and Market Risk Committee

The main function of the finance, international and market risk committee is to analyze the evolution of our financial positions and the market risks (price and liquidity) that these financial positions generated, particularly the control of risks related to internal and regulatory limits and/or warnings. This committee also analyzes international financial exposure and major credit exposures generated by derivative transactions.

The finance, international and market risk committee meets monthly and is composed of the chairman of our board of directors, four other members of our board of directors, our chief executive officer, the manager of our Corporate Credit Risk Division, the manager of our Corporate and Investment Banking Division, our chief financial officer, our corporate treasurer and the manager of our financial risk area. Committee members conduct analyses and make presentations to the committee regarding certain matters, including:

- Knowledge of the current status of market risk, which permits forecasting potential future losses;
- Review of estimated results of certain financial positions generated in isolation in order to measure the risk-return ratio of the treasury businesses, as well as changes in and forecasts of the use of capital based on best estimates of future credit and market risks;
- Analysis of the liabilities of the international financial exposure and major credit exposures generated by derivative transactions; and
- The design of policies and procedures for setting controlling and reporting financial position limits and warnings.

Asset Laundering and Financing of Terrorism Prevention Committee

The asset laundering and financing of terrorism prevention committee was set up in April 2006 with the purpose of defining the policies and procedures that would comprise the asset laundering and financing of terrorism prevention system, as well as evaluating compliance and deciding on all matters related to these subjects.

This committee includes the chairman of our board of directors, our chief executive officer, our general counsel, the manager of our Operations and Technology Division and the chief executive officer of Banchile Administradora General de Fondos S.A. The manager of our Risk Control Division, the manager of our Global Compliance Division and the manager of our asset laundering prevention area may also attend and participate in the meetings.

Table of Contents

The asset laundering and financing of terrorism prevention committee meets monthly and has the following functions:

- To approve the policies and procedures concerning the gathering of information on customers and their activities and the acceptance and monitoring of their accounts, products and operations;
- To approve policies and procedures concerning unusual transaction detection systems; formal channels of information to senior management; and monitoring, analysis and reporting mechanisms;
- To approve policies and procedures concerning surveillance methods and relations with correspondent banks;
- To approve policies and procedures concerning staff selection, training programs and codes of conduct;
- To approve the policies and procedures concerning asset laundering and terrorism financing prevention;
- To appoint persons to perform specific functions in accordance with current regulations on the prevention of asset laundering and terrorism financing;
- To analyze the results of the reviews conducted to verify compliance with current policies and procedures;
- To consider the transactions analyzed and decisions made by the transactions analysis committee;
- To consider activities developed to train staff in asset laundering and terrorism financing prevention;
- To consider and approve modifications to procedures proposed by our Global Compliance Division that improve existing controls for the prevention of asset laundering and terrorism financing; and
- To inform our board of directors of regulatory changes related to the prevention of asset laundering and financing of terrorism.

Disclosure Committee

In May 2003, we established the disclosure committee to ensure accurate market disclosure of our and our subsidiaries consolidated financial information. The members of the disclosure committee include our chief accountant, our senior lawyer for international matters and the manager of our research and planning area, together with the manager of our Institutional and Investor Relations Division, our chief financial officer and the manager of our Risk Control Division.

The members of the disclosure committee are involved in reviewing quarterly reports and in general all financial information disclosed by us prior to each disclosure.

Ethics Committee

The ethics committee was established in 2005 to define, promote and regulate behavior of professional and personal excellence consistent with our philosophy and values to be followed by all our staff in order to meet the expectations of our customers.

To meet these goals and promote a culture of ethical behavior, the ethics committee sets policies on ethics and ensures their compliance, develops training plans related to ethics in our business, and reinforces positive behavior among our staff. The ethics committee also acts as a forum to address, discuss and resolve any conduct by our staff that is inconsistent with our values. This committee is chaired by the manager of our Human Resources Division and includes our general counsel, the manager of our Risk Control Division, the manager of our Global Compliance Division, the manager of our Commercial Division (Individual and SME Banking), the manager of our Operations and Technology Division, and the manager of our Wholesale, Large Corporations and Real Estate Division.

Citigroup and Banco de Chile Cooperation Agreements Committees

In order to control and review the evolution of the joint initiatives resulting from our strategic association with Citigroup Inc., additionally to the Global Connectivity Agreement Steering Committee, the following committees have been set up: (i) Global Transaction Services Committee; (ii) International Personal Banking Committee; (iii) Investment Banking Committee; (iv) Retail Initiatives Committee; and (v) Financial Control Committee of the Cooperation Agreement. The committees mentioned above are composed of the chairman of our board of directors, our chief executive officer and two members of our board of directors that have been appointed by Citigroup Inc. Also taking part in these meetings, except in the Global Connectivity Agreement Steering Committee, are division managers for each particular business line and the managers of the areas directly responsible for the respective business.

The main purpose of the Global Connectivity Agreement Steering Committee is to act as a communication link between Banco de Chile and Citigroup in connection with the agreements entered into between them. The purposes of the other committees are:

(i) Global Transaction Services Committee (GTS)

The global transaction services committee was set up with the purpose of monitoring the overall performance of the transactional services areas in accordance with the Global Connectivity and Cooperation Agreements and, in particular, the functions of local and international cash management and custody for foreign investors.

(ii) International Personal Banking Committee (IPB)

The main goal of the international personal banking committee is to monitor the performance of the IPB unit in Banco de Chile in relation to the services provided by us to Citibank with respect to certain financial products and services offered abroad to residents of Chile. This committee seeks to strengthen Citibank s commercial activities with individuals that are not residents of the United States.

(iii) Investment Banking Committee

The objective of the investment banking committee is to foster the development of cross-border merger and acquisition transactions, debt issuances and acquisitions, and capital markets for our customers and customers of Citigroup Inc. doing business in Chile. This committee is responsible for monitoring the execution of transactions performed under the Global Connectivity Agreement and collaborating in investment banking business opportunities.

(iv) Retail Initiatives Committee

The main purpose of this committee is to share best practices and business opportunities between both institutions.

(v) 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.

Table of Contents

Approval of Policies and Procedures under the Merger Agreement

The Merger Agreement between us and Citibank Chile provided that as a general rule our board of directors would approve and implement certain policies relating to the operation of the joint entity. At the time of filing of this annual report, policies regarding the following issues were approved and implemented:

- Anti-Money Laundering;
- Foreign Corrupt Practices Act;
- Office of Foreign Assets Control;
- Insider Trading;
- Regulation K Debts Previously Contracted;
- Regulation K Equity Activity;
- Regulation W (23 A/B);
- Code of Conduct;
- Fair Lending;
- Personal Trading Policy;
- Loans to Directors;
- Independent Research;
- Charitable Contributions;
- Chinese Walls;
- Anti-Tying;

Mandatory Absence Policy;

Compliance Policy/Program;

Administration of Subsidiaries;

Fraud Management;

Anti-Boycott;

Issue Tracking, Management and Escalation Process;

Operational Risk;

Credit Risk;

Vendor Selection and Management Process;

Web Site Standards;

Capital Expenditure Policy;

Expense Management Policy;

Accounting Policies and Procedures;

New Products and Services Policy;

Tax Standards for Tax Sensitive Transactions;

Tax Policy and Procedures; and

Fiduciary Policy.

In addition to the policies mentioned above, we are in the process of supplementing other policies currently in force that are material to our business, such as prevention of asset-laundering, credit risk and market risk.

Upper Management Committee

The upper management committee, the highest coordinating body of our upper management, is chaired by our chief executive officer, and its principal function is to discuss main strategic guidelines and to analyze the market and the banking industry.

This committee resolves issues relating to our internal policies and analyzes our performance. In this committee, numerous divisions exchange their points of view as to our business and prioritize joint initiatives. Each year, this committee outlines the foundations for our annual plan. After the individual annual plan for each business area is agreed upon by our chief executive officer and each division manager, under the coordination of our chief financial officer, the overall plan is submitted to our board of directors for approval. This committee also reviews progress and budgets for approved plans on a monthly basis.

Operational Risk Executive Committee

Created in 2009, the operational risk executive committee is responsible for identifying, prioritizing and establishing strategies to mitigate key operational risk events relating to internal and external fraud; risks associated with customer, product and business practices; damage to tangible assets; and disturbance of normal activity resulting from system malfunctions or failures in executing, delivering and processing products/services. This committee is also responsible for defining and evaluating our corporate strategy for managing operational risk, establishing guidelines and directing efforts to create controls and improve internal processes in order to reduce operational losses.

To comply with these objectives and foster an awareness of operational risk, this committee promotes a series of training activities and communicates to our staff important information relating to operating risks.

This committee is chaired by our chief executive officer and includes our chief financial officer, the head of the security and risk prevention area, the manager of our Risk Control Division, the manager of our Operations and Technology Division and the manager of our operational risk area.

Internal Communications Committee

The internal communications committee defines policies and designs our action plan to ensure that appropriate information reaches all of our employees. This committee ensures that information sent to our employees is adequate to allow them to correctly perform their functions, communicates the organization s fundamental strategies and policies and its performance, promotes collaboration and team work, fosters personal development, encourages first-rate performance and cultivates a pleasant work environment. The internal communications committee is led by the manager of our Human Resources Division, and includes managers from the following divisions:

Chief Financial Officer;

Operations and Technology Division;

Table of Contents

Institutional and Investor Relations Division;

Commercial Division (Individual and SME Banking);

Corporate and Investment Banking Division;

Wholesale, Large Corporation and Real Estate Division;

Consumer Finance Division; and

Development and Quality Manager.

EMPLOYEES

The following table shows a breakdown of our full-time, permanent employees at the dates indicated:

	As of December 31,		
	2010	**2011**	**2012**
Banco de Chile	10,341	10,482	**10,737**
Subsidiaries	3,675	3,647	**3,844**
Total	**14,016**	**14,129**	**14,581**

As of December 31, 2012, we had 14,581 employees (on a consolidated basis) of which 6,371 or 43.7% were unionized. As of the same date, all management positions were held by non-unionized employees.

In 2011 we renegotiated three out of the four existing collective agreements that were due to expire in 2012 and signed four-year agreements with all of them. Also, we renegotiated the collective bargaining arrangement related to an agreement that expired in 2011 with Citibank union that, as of that date, comprised 1,016 employees, representing 15.0% of our total unionized workforce.

Similarly, during 2012 we renegotiated the existing collective agreements of two of our subsidiaries, Socofin and Promarket, which jointly represented 17.3% of our total workforce as of December 31, 2012. Both of these agreements were due to expire in 2012. For one of the agreements we reached a two-year accord, whereas for the other collective agreement we signed a four-year accord, which are due to expire in 2014 and 2016, respectively.

These collective bargaining processes have allowed us to equalize benefits among all of our employees, since we formerly had differentiated agreements due to our successive merger transactions. We believe these new agreements will improve relations with our employees, which we believe are satisfactory, and simplify the compensation system to employees across the corporation.

We have comprehensive personnel training and development programs that include internal courses on operational, technical and commercial matters as well as participation in external seminars and conferences. In 2012, the total cost of training programs was approximately 0.54% of the Bank s consolidated personnel salaries and expenses. These expenses were related to 1,069 training courses that were attended by 65,535 people. According to our human resources division, during 2012 97.1% of the Bank s total personnel attended at least one training course.

We do not maintain any pension or retirement programs for the vast majority of our employees. We do, however, pay certain long-serving key employees a severance payment upon retirement. Although we have provided productivity bonuses to individual employees on a discretionary basis, we do not maintain a formal profit-sharing plan.

SHARE OWNERSHIP

Mr. Andronico Luksic and Mr. Jean Paul Luksic, members of our board of directors since March 2002 and April 2013, respectively, together with members of their family, control Quiñenco S.A. As of April 15, 2013, Quiñenco directly and indirectly owns 50% of LQIF, which in turns owns directly 32.25% of our outstanding shares and 0.14% through Inversiones LQ-SM Ltda. Additionally, Quiñenco S.A. holds 58.51% of the voting rights in Banco de Chile (directly and indirectly through shares of SM-Chile S.A. that are owned by LQIF and Inversiones LQ-SM S.A (LQ-SM). See Item 7 Major Shareholders, footnote (3)).

LQIF and LQ-SM, are vehicles incorporated under Chilean law through which Quiñenco S.A. and Citigroup hold their ownership interests in Banco de Chile. As part of the strategic partnership between Citigroup and Quiñenco, they entered into a framework agreement which was included in our 6-K filed on July 20, 2007. Pursuant to this agreement and following the merger of Citibank Chile into Banco de Chile, Quiñenco S.A. and Citigroup became the shareholders of LQIF, the parent corporation of Sociedad Matriz del Banco de Chile S.A. (SM-Chile) and Banco de Chile, among other companies. LQ-SM is an investment vehicle whose major shareholder LQIF owns 99.99% of its shares.

As of April 15, 2013, Citigroup is the owner of 50% of LQIF and Quiñenco, directly and indirectly, owns 50% of LQIF. Regardless of any increase in participation by Citigroup, however, the agreement provides that Quiñenco will remain in control of LQIF and the corporations that are directly or indirectly controlled by LQIF. Accordingly, Quiñenco will maintain the power to elect the majority of the directors of LQIF, SM-Chile and Banco de Chile.

Mr. Jacob Ergas controls Ever I Bae S.p.A., Ever Chile S.p.A. and Inversiones Aspen Limitada. As of April 15, 2013, these holding companies own 2.19%, 2.19% and 1.51% of our outstanding shares, respectively. Mr. Ergas holds 5.89% of the voting rights in Banco de Chile through these holding companies. Mr. Jacob Ergas has not been a member of the board since March 2011, when Mr. Jorge Ergas was appointed to the board of directors. Mr. Jacob Ergas and Mr. Jorge Ergas are father and son.

None of our directors or senior management (other than Mr. Andronico Luksic and Mr. Jean Paul Luksic) owns 1% or more of our outstanding common stock. Further, none of our directors (including Mr. Andronico Luksic and Mr. Jean Paul Luksic) or senior management have different or preferential voting rights with respect to the shares they own.

We do not have any arrangements for involving employees in our capital, including any arrangements that involve the issue or grant of options of our shares or securities.

Table of Contents

Item 7 Major Shareholders and Related Party Transactions

MAJOR SHAREHOLDERS

Ownership Structure

As described in Item 4. Information on the Company History and Development of the Bank History The 1982 1983 Economic Crisis and the Central Bank Subordinated Debt, the Chilean banking system, including us, experienced significant instability during that time that required the Central Bank and the Chilean Government to provide financial assistance to most Chilean private sector banks which resulted, pursuant to Law No. 18,818 enacted in 1989, in the repurchase by us of our portfolio of non-performing loans from the Central Bank and the assumption of the Central Bank s subordinated debt relating to our non-performing loans.

In November 1996, pursuant to Law No. 19,396, our shareholders approved a reorganization by which we were converted into a holding company named SM-CHILE S.A. In turn, SM- CHILE S.A. 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. In addition, SM- CHILE S.A. incorporated SAOS S.A. (SAOS), a special purpose legal vehicle created by Law 19,396, whose only business purpose is to repay the Central Bank indebtedness. In exchange for assuming the Central Bank indebtedness, SAOS received from SM- CHILE S.A. a certain portion of our shares pledged as collateral in favor of the Central Bank of Chile to secure payment to the Central Bank. Pursuant to applicable laws and the bylaws of both SAOS and SM-CHILE S.A., the economic rights of our shares held by SAOS belong to the Chilean Central Bank; however, their voting rights are exercised by the shareholders of SM- CHILE S.A. at Banco de Chile s shareholders meetings.

Currently, our major shareholder LQIF holds 58.40% (together with LQ-SM, as further explained below) of the voting rights of our shares. LQIF and Inversiones LQ-SM Ltda. are vehicles incorporated under Chilean law through which Quiñenco S.A. and Citigroup hold their ownership interests in Banco de Chile. The voting rights of LQIF and LQ-SM is the result of the right of LQIF and LQ-SM, pursuant to applicable law and bylaws, to vote (i) our shares owned by LQIF and LQ-SM; (ii) our shares owned by SM- CHILE S.A., based on the ownership percentage of LQIF and LQ-SM in SM-CHILE S.A.; and, (iii) our shares owned by SAOS, as a shareholder of SM- CHILE S.A., based on the ownership percentage of LQIF and LQ-SM in SM-CHILE S.A., at our shareholders meetings. According to the bylaws of SM-CHILE S.A., the voting rights of SM- CHILE S.A., shares Series A, B and D which in turn possess voting rights over Banco de Chile shares, are exercised in accordance with the following rule: each share of SM- CHILE S.A., exercises the voting rights of one of our shares plus 2.38337827 of our shares owned by SAOS. The latter factor is the result of dividing the number of our shares owned by SAOS (28,593,701,789) by the number of total outstanding shares of SM-CHILE S.A., Series A, B and D (11,997,131,195). Consequently, each SM-CHILE S.A. share (Series A, B and D) with voting rights over our shares may vote 3.38337827 shares of Banco de Chile. SM-CHILE S.A. s Series E exercises voting rights of Banco de Chile shares in a one-to-one ratio.

Major Shareholders

The following table sets forth certain information regarding the ownership of outstanding shares (including Banco de Chile-T series shares) as of April 15, 2013 for the following:

- each person or entity who is known by us to own beneficially more than 5% of our outstanding shares capital or voting rights; and SAOS, LQIF and SM-Chile S.A.

- our directors and members of our executive management group, as a group.

Table of Contents

Ownership in Banco de Chile[1]

(As of April 15, 2013)

Name	Amount Owned	Percentage
SAOS[2]	28,593,701,789	31.09%
SM- CHILE S.A.	12,138,537,826	13.20%
LQIF and LQ-SM[3]	29,795,295,881	32.39%
Jacob Ergas[4]	5,418,034,824	5.89%
Directors and executive officers as a group	25,325,145	0.03%

Voting Rights in Banco de Chile

(As of April 15, 2013)

Name	Amount Owned	Percentage
LQIF and LQ-SM[5]	53,713,237,424	58.40%
Jacob Ergas	5,418,034,824	5.89%
Directors and executive officers as a group	56,127,992	0.06%

(1) Percentages are based on 91,977,302,953 shares outstanding as of April 15, 2013, including Banco de Chile-T series shares. Currently we have Banco de Chile´shares and Banco de Chile-T series shares outstanding. Each share has one vote and all shares have identical voting rights, with the exception that Banco de Chile-T series shares will not receive dividends or fully paid-in shares in respect of our net distributable earnings for fiscal year 2012. Once any dividends and/or fully paid-in shares are distributed, the Banco de Chile-T shares will automatically convert into Banco de Chile shares. We have no shares outstanding with special voting rights.

(2) SM-CHILE S.A. beneficially owns 100% of SAOS. Our shares owned by SAOS, (which are all pledged as collateral in favor of the Chilean Central Bank to secure repayment of the Central Bank indebtedness) possess economic rights that belong to the Chilean Central Bank, although the voting rights, pursuant to the by-laws of both SAOS and SM-CHILE S.A., are exercised by the shareholders of SM-CHILE S.A., at the Bank s shareholders meetings. In terms of economic rights, all classes of shares of SM-Chile have the right to receive dividends, with the exception of class A shares, which are not afforded with this right (classes B, D and E are entitled to dividends from the income generated by SM-Chile when we decide to distribute dividends).

(3) LQIF and LQ-SM hold 47.13% and 11.11%, respectively, of SM-Chile s total shares. The total percentage ownership of LQIF and LQ-SM in SM-CHILE S.A., was calculated by adding the total number of shares of LQIF and LQ-SM, as shareholders of record, divided by the total number of shares issued by SM-Chile S.A. LQIF and LQ-SM do not beneficially own all of our shares owned by SM-CHILE S.A. because SM-CHILE S.A. has, as of April 15, 2013, a total of 18,282 shareholders. LQ-SM is an investment vehicle whose major shareholder LQIF owns 99.99% of its shares. As of its incorporation date (August 26, 2002), we were informed that LQ-SM s total capital was CLP$73,175,029,140. In connection with the framework agreement executed between Citigroup, Inc. and Quiñenco S.A. in July 2007 and following the merger of Citibank Chile into Banco de Chile, Citigroup became a shareholder of LQIF. As of April 15, 2013, Citigroup is the owner of 50% of LQIF, and Quiñenco directly and indirectly owns 50% of LQIF. Regardless of any increase in participation by Citigroup, however, the agreement provides that Quiñenco will remain in control of LQIF and the corporations that are directly or indirectly controlled by LQIF. Accordingly, Quiñenco will maintain the right to elect the majority of the directors of LQIF, SM-CHILE S.A. and Banco de Chile. As of December 31, 2012, members of the Luksic family or their affiliates beneficially owned 81.3% of the common shares of Quiñenco S.A. Mr. Andrónico Luksic and Mr. Jean Paul Luksic are members of our board of directors.

(4) Mr. Jacob Ergas holds his shares through Ever 1 Bae S.p.A., Ever Chile S.p.A. and Inversiones Aspen Ltda., which are holding companies under his control. Mr. Jacob Ergas has not been a member of the board since March 2011 when Mr. Jorge Ergas was appointed director of the board. Mr. Jacob Ergas and Mr. Jorge Ergas are father and son.

Table of Contents

The following charts provide additional information on the voting rights held by LQIF and LQ-SM, as of April 15, 2013:

Voting rights of LQIF in Banco de Chile

Ownership	Shares owned by LQIF	Voting Ratio	LQIF Voting Shares as a result of the application of Voting Ratio in BCH	Voting Rights of LQIF (as %) in BCH
Direct ownership in BCH	29,662,197,006	1.00000000	29,662,197,006	32.25
Shares SM-A		3.38337827		
Shares SM-B	5,497,274,771	3.38337827	18,599,360,004	20.22
Shares SM-D	223,364,308	3.38337827	755,725,946	0.82
Shares SM-E		1.00000000		
Total LQ-SM in BCH			**49,017,282,956**	**53.29**

Voting rights of LQ-SM in Banco de Chile

Ownership	Shares owned by LQ-SM	Voting Ratio as set in SM-CHILE By -laws	LQ-SM Voting Shares as a result of the application of Voting Ratio in BCH	Voting Rights of LQ-SM (as %) in BCH
Direct ownership in BCH	133,098,875	1.00000000	133,098,875	0.14
Shares SM-A	377,528,973	3.38337827	1,277,323,323	1.39
Shares SM-B	971,080,384	3.38337827	3,285,532,270	3.57
Shares SM-D		3.38337827		
Shares SM-E		1.00000000		
Total LQ-SM in BCH			**4,695,954,468**	**5.11**

Table of Contents

RELATED PARTY TRANSACTIONS

In the ordinary course of our business, we engage in a variety of transactions with certain of our affiliates and related parties. Financial information concerning these transactions is set forth in Note 37 to our audited consolidated financial statements as of and for the year ended December 31, 2012, appearing elsewhere in this annual report. The Chilean Corporations Law was amended in October 2009 by Law No. 20,382, which also introduced changes to several others laws to improve Chilean corporate governance. As part of these changes, the concept of related party transactions in the Chilean Corporations Law was amended. The new regulation established different treatment for closely held corporations and for publicly held corporations.

In accordance with the Chilean Corporations Law, related party transactions in publicly held corporations are defined as every negotiation, act, contract or operation in which the corporation deals with any of the following persons: (i) one or more persons related to the corporation, in accordance with the Chilean Securities Law No. 18,045; (ii) a director, manager, administrator, main executive or liquidator of the corporation, acting on its own behalf or on behalf of third parties, or their respective husband or wife or any other person to which such director, manager, administrator, main executive or liquidator, or their husband or wife has a second degree relationship with (either by consanguinity or affinity); (iii) companies or corporations in which the persons mentioned in the previous item are owners, directly or through other juridical or natural persons, of 10% or more of its capital, directors, managers, administrators or main executives; (iv) those established in the bylaws of the corporation or those reasonably agreed by the board of directors; or (v) persons who acted as a director, manager, administrator, main executive or liquidator of the corporation within eighteen months of the relevant transaction.

We may only enter into transactions with related parties if (i) the purpose of the transaction is in our best interest, (ii) the transaction reflects prevailing market prices, terms, and conditions and (iii) the transaction complies with the requirements and procedures specified in the Chilean Corporations Law, which requires our board of directors to approve the relevant transaction based upon the criteria mentioned in items (i) and (ii) of this paragraph. In order for our board of directors to approve any such transactions, the related party involved in or negotiating the transaction must give prior notice to our board of directors.

A violation of these provisions shall not affect the transaction s validity, but shall grant us, our shareholders or third parties an indemnification right to claim damages for the benefit of the company. The amount of damages claimed shall be equal to the sum of the benefits improperly obtained by the related party as a result of the relevant transaction. All board resolutions approving such related party transactions must be reported to our shareholders at the following ordinary annual shareholders meeting. Violations of this provision may result in administrative or criminal sanctions and civil liability to shareholders or third parties who suffer losses as a result of such violation.

The following transactions with related parties may be executed without complying with the requirements previously mentioned, subject to the prior approval of our board of directors: (i) transactions that are not considered material (for this purpose, an act or contract is deemed material if (1) it exceeds 1% of our paid-in capital and reserves and it also exceeds UF 2,000 or (2) it exceeds UF 20,000; and there is a presumption that all contracts celebrated within a period of 12 months constitute one single transaction, irrespective of whether they are executed in one or more separate transactions during such period of time); (ii) transactions that, according to a general policy of customary transactions adopted by the board of directors of the corporation, are considered customary in connection with our corporate purpose; and (iii) transactions among corporations in which we own, directly or indirectly, at least 95% of the stake of the counterparty.

In connection with number (ii) above, on December 29, 2009, our board of directors established the following general policy which permits us to carry out certain transactions with related parties without the requirements and procedures set forth in the Chilean Corporations Law. The general policy adopted by our board of directors permits, among other things, transactions in the ordinary course of our business, such as opening current accounts, making deposits, extending loans or credit lines with or without collateral, factoring transactions, the sale and transfer of commercial paper, collections, payments and funds transfers, foreign exchange transactions and issuing letters of credit. This general policy has also been extended to our affiliates.

We believe that we have complied with the applicable requirements of the Chilean Corporations Law in all transactions with related parties and affirm that we will continue to comply with such requirements. See Note 37 to our audited consolidated financial statements as of and for the year ended December 31, 2012, appearing elsewhere in this annual report for a more detailed accounting of our transactions with related parties.

On July 19, 2007, Quiñenco S.A., Citigroup Inc. and Citibank Overseas Investment Corporation entered into a Master Joint Venture Agreement (the Framework Agreement) that set forth the parameters of a partnership between Quiñenco S.A. and Citigroup Inc., including the eventual merger of Citibank Chile into us. The Framework Agreement provided that Citigroup Inc. would initially acquire a 32.96% equity interest in LQIF, our controlling shareholder, and would be entitled to increase its stake in LQIF to either 41.4778% or 50% through the exercise of several options. Citigroup Inc. could also be required to increase its stake in LQIF to 50% if Quiñenco S.A. exercised a put option under the Framework Agreement. The acquisition by Citigroup Inc. of its initial interest in LQIF occurred, with effect on January 1, 2008, under the terms of the Framework Agreement and the corresponding Merger Agreement between us and Citibank Chile. For purposes of the Merger Agreement, the operations and businesses of Citibank Chile that were effectively contributed to us were deemed to represent 10.497% of the post-merger entity and, together with other assets and businesses contributed by Citigroup Inc. to LQIF, were the basis for the issuance by LQIF of the 32.96% equity interest in LQIF transferred to Citigroup Inc. As consideration for the merger, we issued and conveyed to LQIF (and indirectly, the holders of Citibank Chile shares) 8,443,861,140 no-par value Banco de Chile-S series shares (which, as of the date hereof, were converted into ordinary shares, by means of the amendment of the Bank s Bylaws).

Under the Framework Agreement, Quiñenco S.A. remains as the controlling shareholder of LQIF and therefore of us, while Citigroup Inc. is granted certain governance and other shareholder rights in LQIF. With respect to the governance rights in us, Citigroup Inc. has the right to name two directors to our 11-member board of directors, while Quiñenco would maintain the right to appoint a majority of our board of directors. Citigroup Inc. also has the power to propose the appointment of certain of our executive officers (including our chief financial officer) and at least one representative on our directors/audit committees. Under this agreement, Citigroup Inc. was also granted certain veto rights over certain fundamental strategic decisions (as defined in the Framework Agreement), such as the delisting of our ADSs from the New York Stock Exchange or the delisting of our shares from the Santiago Stock Exchange, the Bolsa Electrónica de Chile and the Valparaiso Stock Exchange, entry into new lines of business or large acquisitions, approval of related party transactions and changes to our bylaws or organizational documents. Furthermore, Citigroup Inc. agreed to purchase substantially all of the assets of our North American (i.e., Miami and New York) branches for U.S.$130 million. Because Citigroup beneficially owns 50% of LQIF, it may name up to five of the 11 members of our board of directors (such number to be reduced by the number of directors appointed by minority shareholders, provided that Citigroup Inc. always shall have the right to appoint at least one director), including the vice chairman, pursuant to the terms of the Framework Agreement. However, even in this circumstance, Quiñenco S.A. would still be entitled to appoint a majority of our board of directors. The Framework Agreement also sets forth a series of ancillary agreements proposed to be entered into by the parties to the Framework Agreement and some of their affiliates.

On December 19, 2008, Quiñenco S.A., Citigroup Inc. and Citibank Overseas Investment Corporation amended the Framework Agreement (the Amendment), and through it the Shareholders Agreement mentioned below. The Amendment provided that if Citigroup Inc. did not acquire 8.52% of LQIF s shares (to hold at least a 41.4778% ownership interest in LQIF) as a consequence of the actions and decisions of any relevant authority in the United States, Quiñenco S.A. shall have the right to compensation as provided in the Amendment, and Citigroup Inc. shall have the option of acquiring either a 41.4778% or a 50% interest in LQIF. Furthermore, the Amendment provided that if for any reason Citigroup Inc. did not exercise any of the call options mentioned in the previous sentence, Quiñenco S.A. or its affiliates, as applicable, shall be entitled to require Citigroup Inc. to sell to them an amount of shares of LQIF such that, after such sale, Quiñenco S.A. shall directly or through its affiliates own an 80.1% ownership interest in LQIF. If this had occurred, Citigroup Inc. s governance and other shareholder rights mentioned in the preceding paragraph should have been those provided in Clause Six of the Shareholders Agreement referred to below. Notwithstanding these provisions, on January 29, 2010, Citigroup Inc. exercised a call option to acquire 8.52% of LQIF s shares and, on March 15, 2010, Citigroup Inc. exercised another call option to acquire an additional 8.52% of LQIF s shares. Consequently, since April 30, 2010 Citigroup Inc. and Citigroup Overseas Investment Corporation indirectly owns 50% of LQIF. As a result, since April 30, 2010, Citigroup Inc. has been granted certain corporate governance rights over us, as described above.

On December 27, 2007, Quiñenco S.A., Citigroup Chile S.A. and the minority shareholders of LQIF entered into a shareholders agreement (the Shareholders Agreement) that formalized the rights of Citigroup Inc. with respect to the governance rights in us as set forth in the Framework Agreement (and as discussed in the preceding paragraph). The Shareholders Agreement became effective on January 1, 2008.

On December 27, 2007, we entered into a Global Connectivity Agreement with Citigroup Inc. The purpose of this agreement is to enable us and our clients to become part of Citigroup s Global Network and to provide a framework for us and Citigroup Inc. to direct new business to the partnership in order to generate wealth creation for both companies. The agreement sets forth the terms upon which we, Citigroup Inc. and our and its respective affiliates will develop a relationship with respect to cross-border business and certain services being rendered (such as corporate and investment banking services, international personal banking services and global transactions services, among others). The parties agreed on the following principles with respect to implementing the terms of the agreement: (i) the promotion of global connectivity products among Chilean customers, (ii) the setup of a technology platform, (iii) the training of employees and officers, and (iv) the construction of international support networks to carry out the transactions contemplated by the agreement. On February 27, 2009, we and Citigroup amended the Global Connectivity Agreement. The purpose of the amendment was to clarify and supplement the terms of the original agreement with respect to the banking services to be provided in Chile and abroad.

On December 27, 2007, we also entered into a Trademark License Agreement with Citigroup Inc. (the Trademark License Agreement) in which Citigroup Inc. granted us a non-exclusive paid-up and royalty-free license to use certain of Citigroup Inc. s trademarks in Chilean territory. In addition, Citigroup Inc. granted us a license to use its domain name solely in connection with marketing and promoting authorized services in Chilean territory. On February 27, 2009, we and Citigroup Inc. amended the Trademark License Agreement. The amendment requires us to deliver a certificate at least once a year confirming that we are in compliance with the standards set forth in the Trademark License Agreement. In addition, we must comply with certain additional quality control standards approved periodically by Citigroup Inc. relating to certain products, and Citigroup Inc. has the right to review and inspect all materials relating to the offer and sale of certain products.

On December 27, 2007, we entered into a Cooperation Agreement with Citigroup Inc. (the Cooperation Agreement) with the purpose of providing a framework for the integration of Citibank Chile with us following the merger and ensuring a successful relationship between us and Citigroup Inc. In particular, the Cooperation Agreement establishes a communication mechanism between us and Citigroup Inc. to enhance the exchange of ideas and information related to the integration of our business with that of Citibank Chile and provides for certain specific areas of collaboration going forward (such as with respect to our hedging and derivatives strategies). On February 27, 2009, we and Citigroup Inc. amended the Cooperation Agreement to require each company to establish specific formal processes for sharing information about regulatory changes in the United States and Chile that may have an impact on us. This Cooperation Agreement together with the Operating Agreements (for this purposes the Global Connectivity Agreement and the Licensing Agreement) are valid for six (6) years from January 1, 2008 through January 1, 2014. Those agreements provide that we and Citigroup may agree on an extension for another six years from January 1, 2014 through January 1, 2020, which extension must be agreed to in writing by January 1, 2013; otherwise, the effective agreements will be extended once for two (2) years, from January 1, 2014 through January 1, 2016, when they will expire without any further proceeding. Since the parties did not reach an agreement before January 1, 2013 in order to extend the term of such agreements for an additional 6-year period, the agreements were automatically extended until January 1, 2016. During this extension the parties may agree on an additional extension of the agreements.

On December 31, 2007, we entered into an Asset Purchase Agreement with Citibank, N.A. (the Asset Purchase Agreement), whereby we sold substantially all of the assets and operations of our banking businesses in Miami and New York to Citibank, N.A. and Citibank, N.A. agreed to offer employment to substantially all of the employees in those branches and to assume substantially all of the liabilities related to such assets and operations. In consideration for this sale, we were paid an aggregate purchase price of U.S.$130 million, in addition to the assumption of liabilities. Following the completion of the sale, the Miami and New York branches were placed in voluntary liquidation in January 2008. In March 2008, the banking licenses for both branches were surrendered to the appropriate banking regulator.

On September 25, 2009, we entered into a Master Services Agreement with Citigroup Inc. This agreement regulates and supplements certain reciprocal services that, before the merger between us and Citibank Chile, had

Table of Contents

been provided pursuant to the terms of certain service agreements then in effect between Citigroup Inc. (and certain of its affiliates) and Citibank Chile, which were assumed, after the merger, by us as legal successor to Citibank Chile. Furthermore, this Agreement seeks to foster global connectivity with respect to the banking and financial services referred to in the Global Connectivity Agreement and in the other agreements executed with Citigroup Inc. mentioned above. This agreement has the same term of validity as the Cooperation Agreement aforementioned.

On December 19, 2012, by means of a public deed signed before the Public Notary of Mr. René Benavente Cash, Banco de Chile together with its affiliate Banchile Corredores de Seguros Limitada entered into an agreement with Banchile Seguros de Vida S.A. called Collective Debtor s Life Insurance Agreement (*Contrato de Seguro Colectivo de Desgravamen*) for loan mortgages. Said agreement was entered pursuant to article 40 of DFL N° 251 of 1931, General Regulation N° 330 of the Superintendency of Securities and Insurance and Circular N° 3,530 of the Superintendency of Banks and Financial Institutions, both dated March 21, 2012, upon which the public bid for the collective policy for life insurance covering loan mortgages was adjudicated to Banchile Seguros de Vida S.A., who offered the lowest rate of 0.0119800% monthly, including a 14.00% commission fee for the insurance broker Banchile Corredores de Seguros Limitada, who will act as intermediary of the policy.

Additionally, on December 28, 2012, we and our affiliated companies Banchile Corredores de Seguros Limitada, and Banchile Seguros de Vida S.A., extended until December 31, 2015, the following existent insurance agreements, excluding those insurance agreements related to loan mortgages that are subject to a public bid in accordance with article 40 of DFL N° 251 of 193 mentioned above:

1. Brokerage Agreement entered into by the affiliate Banchile Corredores de Seguros Limitada and the related company Banchile Seguros de Vida S.A.

2. Agreements entered into by Banco de Chile and Banchile Seguros de Vida S.A.:

    a) Collection and Data Administration Agreement.

    b) Use Agreement for Distribution Channels.

    c) Banchile s Trademark License Agreement.

    d) Credit Life Insurance Agreement

3. Framework agreement for Insurance Banking, entered into by Banco de Chile, Banchile Corredores de Seguros Limitada and Banchile Seguros de Vida S.A.

All the terms and conditions contained in the agreement mentioned above were previously reviewed and approved by our board of directors.

Loans to Related Parties

As authorized by the General Banking Law, and within the regulatory limits, we hold several outstanding loans owed by different corporations related to us. All such loans (i) were made in the ordinary course of business, (ii) were made on terms, including interest rates and collateral, substantially the same as those prevailing at the time for comparable transactions with other persons and (iii) did not involve more than the normal risk of collectability or present other unfavorable features. See Note 37(a) to our audited consolidated financial statements as of and for the year ended December 31, 2012 appearing elsewhere in this annual report for more information on these loans.

Table of Contents

Item 8 Financial Information

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Audited Consolidated Financial Statements

Please refer to Item 18. Financial Statements.

Legal Proceedings

We and our subsidiaries are subject to claims and are parties to legal proceedings in the normal course of business.

Request from Spanish Court to Chilean Judicial Authorities

On April 29, 2010, the Supreme Court of Chile denied the requests contained in a rogatory letter issued on October 26, 2009, by the Central Court of Instruction Number 5 of the National Court of Spain (*Juzgado Central de Instrucción No. 5 de la Audiencia Nacional de Madrid*) in Madrid, Spain (the Spanish Court) to have certain actions taken (as described below) with respect to a lawsuit before the Spanish Court. The Supreme Court of Chile established that the subject matter of the investigation by the Spanish Court was currently pending before a Chilean tribunal that has jurisdiction and competency over these matters.

The rogatory letter referred to above notified the Chilean judicial authorities that a lawsuit pending before the Spanish Court had been amended to add causes of action concerning concealment of assets and money laundering against Mr. Pablo Granifo Lavin (the chairman of our board of directors) and Mr. Hernán Donoso Lira (former manager of our New York branch) and against us, Banchile Corredores de Bolsa S.A. and Banchile Administradora General de Fondos S.A., the latter three of which face only subsidiary civil liability. The rogatory letter, among other items, requested a joint guarantee (*fianza solidaria*) from the defendants in the amount of U.S.$77,348,374 and, if the aforementioned parties were not to grant such a joint guarantee, requested the attachment of assets of up to U.S.$103,131,165.

On April 30, 2012, the Spanish Court decided the provisional dismissal (*sobreseimiento provisional)* of the aforementioned lawsuit on the grounds that the Chilean judicial authorities have investigated and prosecuted the same facts as those pending before the courts in Spain, and there is an existing legal proceeding underway in Chile, which should have priority. The complainant filed an appeal (*recursos de apelación y reforma*), which was dismissed on July 27, 2012 and June 19, 2012 by the Spanish judicial authorities.

In Chile, a judicial investigation is currently underway and at the time of filing of this annual report no indictments for criminal participation of persons affiliated with us have been issued. Consequently, it is not possible to predict the outcome of these proceedings, or what impact, if any, they might have on us.

Labor Discrimination Claim

A Chilean court with jurisdiction over labor claims issued a judgment against us in a legal proceeding for wrongful termination of employment based on a labor discrimination claim. As a result of this judgment, we were prevented from entering into certain service agreements with the Chilean government until September 7, 2012. Despite the judgment, we were still permitted to enter into service agreements with government-owned companies created by statute, agreements in connection with the purchase and sale of securities or other financial instruments, agreements in connection with the execution and concessions of public projects, and agreements in connection with the lending of credit on a fixed term basis. The impact on our results of operations for the year ending December 31, 2012 was approximately U.S.$1.3 million.

Erroneous Electronic Forwarding of Bank Statements Claim

On August, 2012 *Corporación Nacional de Consumidores y Usuarios de Chile* (a Chilean consumer association) filed a class action against Banco de Chile pursuant to Law N ° 19,496, whereby the plaintiff demanded that we compensate 52,770 of our current account holders who were affected by erroneous electronic forwarding of bank statements that occurred in July 2012. The plaintiff seeks total compensation of CLP$ 80,000 (approx. US$ 170) for each account holder as well as the reimbursement of maintenance fees charged on current accounts. The demand and allegations are currently under judicial review.

It is not possible to predict the outcome of this proceeding; however, in any case it will not have a material impact on us.

Dividends

General

We currently have a single series of common shares (except Banco de Chile Series-T series, as explained below), and the dividends on our shares are proposed by our board of directors and are approved by our shareholders at the ordinary annual shareholders meeting following the year with respect to which the dividends are proposed. Our ordinary annual shareholders meeting is required to be held in the first four months of each year. Following shareholder approval, the dividends are declared and paid. Dividends are paid to shareholders of record on the fifth business day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of our ADSs are, to the extent practicable, the same. Under the Chilean Corporations Law and regulations issued thereunder, Chilean public corporations are generally required to distribute at least 30% of their consolidated annual earnings as dividends, except to the extent they have accumulated losses. Under the General Banking Law, a Chilean bank may pay dividends upon approval of its shareholders from (i) net earnings of previous fiscal years (i.e., interim dividends are not permitted), (ii) the reserve kept for that purpose or (iii) other funds permitted under Chilean law.

Our dividend policy is affected to some extent by the rights of SAOS, our affiliate, pursuant to its assumption of the Central Bank indebtedness discussed in Item 4. Information on the Company History and Development of the Bank History The 1982 1983 Economic Crisis and the Central Bank Subordinated Debt.

At the Extraordinary Shareholders Meeting held on October 17, 2012, our shareholders agreed to increase our capital in the amount of CLP$250,000,000,000 (approximately U.S.$521 million) by means of the issuance of 3,939,489,442 cash shares, Banco de Chile-T series . These shares have the same rights as all of Banco de Chile s shares, except that the holders of Banco de Chile T-series shares will not receive dividends or fully paid-in shares in respect to our net distributable earnings for fiscal year 2012. Once any dividends and/or fully paid-in shares are distributed, the Banco de Chile-T shares will automatically convert to Banco de Chile shares. As of the date of this filing, all these shares are fully paid.

Cash Dividends

In March 2012, our shareholders at the ordinary annual shareholders meeting agreed to the distribution and payment of dividend No. 200, in the amount of Ch$2.984740 per ordinary share, with a corresponding charge to our 2011 net distributable income.

In March 2013, our shareholders at the ordinary annual shareholders meeting agreed to the distribution and payment of dividend N° 201 in the amount of Ch$3.41625263165 per ordinary share, with a corresponding charge to our 2012 net distributable income.

The following table sets forth the cash dividends declared per common share during the years ended December 2010, 2011 and 2012:

	As of and for the Year Ended December 31,			
	2010	2011	2012	
	(in Ch$, except percentages)			(in U.S.$)
Chile GAAP:				
Dividend payout ratio(1)	111.94%	73.76%	69.22%	
Dividend per common share(2)	3.50	3.38(*)	3.41	0.007

(1) Dividend payout ratio is calculated by dividing the amount of dividends paid by the earnings per share of the prior year.
(2) Dividends per share are calculated by dividing the amount of the dividend paid during each year by the previous year s number of shares outstanding.
(*) Includes an additional payment to the Central Bank by an amount of MCh$36,713 in 2011 and MCh$37,301 in 2012, in accordance with Law No. 19,396.

Table of Contents

Whether future dividends will be paid will depend upon our earnings, financial condition, capital requirements, governmental regulations and policies and other factors. Accordingly, there can be no assurance that dividends in future years will be paid at a rate similar to dividends paid in past years.

As mentioned under Dividends General , our shares Banco de Chile-T series have the same rights as all of Banco de Chile s shares, except that the holders of Banco de Chile T-series shares will not receive dividends or fully paid-in shares in respect of our net distributable earnings for fiscal year 2012. Once any dividends and/or fully paid-in shares are distributed, the Banco de Chile-T shares will automatically convert to Banco de Chile shares.

Stock Dividends

At the extraordinary shareholders meeting held on March 22, 2012, our shareholders agreed to a stock dividend in connection with the capitalization of 30% of our distributable net income obtained during the fiscal year 2011 by means of the issuance of fully paid-in shares, without par value, with a value of Ch$67.48 per share, which was distributed among the shareholders in the proportion of 0.018956 fully paid-in shares for each share held, subject to the exercise of the options established in article 31 of Law 19,396.

At the extraordinary shareholders meeting held on March 21, 2013, our shareholders agreed to a stock dividend in connection with the capitalization of 30% of our distributable net income obtained during the fiscal year 2012, through the issuance of fully paid-in shares, of no par value, with a value of Ch$71.97 per share, which will be distributed to the shareholders at the fixed rate of 0.02034331347 fully paid-in shares per share currently held, subject to the exercise of the options established in article 31 of Law 19,396.

As mentioned under Dividends General , our shares Banco de Chile-T series have the same rights as all of Banco de Chile s shares, except that the holders of Banco de Chile T-series shares will not receive dividends or fully paid-in shares in respect of our net distributable earnings for fiscal year 2012. Once any dividends and/or fully paid-in shares are distributed, the Banco de Chile-T shares will automatically convert to Banco de Chile shares.

Capital Increases

At the Extraordinary Shareholders Meeting held on October 17, 2012 our shareholders agreed to increase our capital in the amount of CLP$250,000,000,000 (approximately U.S.$521 million) by means of the issuance of 3,939,489,442 cash shares Banco de Chile-T series . These shares have the same rights as all of Banco de Chile s shares, except that the holders of Banco de Chile T-series shares will not receive dividends or fully paid-in shares in respect to our net distributable earnings for fiscal year 2012. Once any dividends and/or fully paid-in shares are distributed, the Banco de Chile-T shares will automatically convert to Banco de Chile shares. As of the date of filing, all these shares are fully paid.

ADR Holders

Dividends payable to holders of our ADSs are net of conversion expenses of the depositary and are subject to Chilean withholding tax currently at the rate of 35%, subject to certain credits. Owners of our ADSs are not charged any fees with respect to cash or stock dividends.

Pursuant to current Chilean foreign exchange regulations, a shareholder who is not a resident of Chile does not need to be authorized as a foreign investor in order to receive dividends, sale proceeds or other amounts with respect to its shares remitted outside Chile, but the investor must inform the Central Bank about any such transactions and must remit foreign currency through the Formal Exchange Market. See Item 10. Additional Information Exchange Controls for additional information on how ADS holders may remit currency outside Chile.

SIGNIFICANT CHANGES

No significant changes in our financial condition have occurred since the date of the most recent audited consolidated financial statements included in this annual report.

Table of Contents

Item 9 The Offer and Listing
Nature of Trading Market

Shares of our common stock are traded on all Chilean stock exchanges. Our shares have been listed on the Santiago Stock Exchange and the Valparaiso Stock Exchange since 1894 and on the Electronic Stock Exchange since 1989. The Santiago Stock Exchange is the main trading market for our shares.

The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The Santiago Stock Exchange, which is Chile s main exchange, had a market capitalization of approximately U.S.$313 billion as of December 31, 2012 and an average monthly trading volume of approximately U.S.$3,874 million for the year ended as of the same date. The Santiago Stock Exchange was established in 1893 and is a private company whose equity consists of 48 shares owned by 45 shareholders. As of December 31, 2012, 252 series of shares were listed on the Santiago Stock Exchange.

According to information published by the Chilean Superintendency of Securities and Insurance, during 2012, the Santiago Stock Exchange accounted for approximately 88.1% of the equity trading in Chile. Also, as of December 31, 2012, approximately 11.4% of equity trading in Chile was conducted on the Chilean Electronic Stock Exchange. The remaining 0.5% of equities was traded on the Valparaiso Stock Exchange.

In addition, as reported by the Santiago Stock Exchange, the ten largest companies in terms of market capitalization represented, as of December 31, 2012, approximately 43.8% of the Santiago Stock Exchange s aggregate market capitalization and during 2011 accounted for approximately 45.0% of equity trading. During 2012, approximately 31.0% of the companies listed on the Santiago Stock Exchange had their shares traded on an average of 70% or more of the exchange s trading days.

Our ADSs, each representing 600 shares of common stock, without nominal (par) value, have been listed on the NYSE since January 2, 2002 under the symbol BCH. JPMorgan Chase Bank is our depositary for purposes of the ADSs. As of December 31, 2012, a maximum of 1,244,300 ADSs were outstanding (equivalent to 746,580,394 shares of common stock or 0.8% of the total number of issued shares of common stock as of the same date). Since certain of our ADSs are held by brokers or other nominees, the number of record holders in the United States may not be fully indicative of the number of direct beneficial owners in the United States or of where the beneficial owners of such shares are resident.

We listed our shares of common stock on Latibex, and trading of these shares started on October 8, 2002 under the code XBCH, grouped in trading units of 600 shares. In addition, since December 20, 2002, our trading units are listed on the LSE.

Table of Contents

The table below shows, for the periods indicated, the annual, quarterly and monthly high and low closing prices (in nominal Chilean pesos) of the traded shares of our securities, labelled Chile series, on the Santiago Stock Exchange, the Electronic Stock Exchange and the Valparaiso Stock Exchange: