

BANK OF CHILE
Form 20-F
April 26, 2013
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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)

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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)

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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 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

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 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

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 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 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

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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, predict, 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;

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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.

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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 pesos (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

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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.

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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,				2012
	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

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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)

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	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				114,685		131,344		141,839		295,825
Provisions		88,607		55,433		60,634		64,545		134,617
Employee benefits		43,202		224,225		269,905		305,105		636,340
Other liabilities		280,392								
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)

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	2009	As of December 31,		2012
		2010	2011	
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.

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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:

Year	Daily Observed Exchange Rate Ch\$ per U.S.\$ ⁽¹⁾			
	Low ⁽²⁾	High ⁽²⁾	Average ⁽³⁾ (in Ch\$)	Period End ⁽⁴⁾
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

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

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RISK FACTORS

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

We are 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

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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.

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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.

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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.

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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 Lavín (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.

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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.

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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 depository 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 depository 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 depository, 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 depository will decrease. In addition, the depository 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.

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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.

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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,

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as of December 31, 2012 we were the largest provider of mutual funds management with a market share of 23.2%.

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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

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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*

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(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.

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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	2012
	(in millions of Ch\$)		
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

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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.

Table of Contents**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%	1 st
Individuals Current Accounts Balances	31.0%	1 st
Mutual Funds (Assets under management)	23.2%	1 st
Net Fees and Commissions Income	24.2%	1 st
Net Income for the Period ⁽¹⁾	29.0%	1 st

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

(1) Excluding operations of subsidiaries abroad.

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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

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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.

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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

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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 .

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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.

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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 as 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.

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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

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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.

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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

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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
	For the Year Ended December 31, 2012		Income Tax⁽¹⁾
	(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.

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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

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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

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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:

	As of December 31, 2012 (in millions of Ch\$, except percentages)	
BANK'S INTERNAL REPORTING POLICIES:		
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.

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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:

	As of December 31, 2012 (in millions of Ch\$, except percentages)	
BANK'S INTERNAL REPORTING POLICIES:		
Secured Residential Mortgage Loans ⁽¹⁾		
Loans financed with Mortgage Bonds	Ch\$ 109,215	2.6%
<i>Mutuos Hipotecarios</i>	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

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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 Loan / Property value		Requirements (in millions of Ch\$, except percentages)	
		≤ 90%	> 90%
<u>Employed</u>			
Years employed		³ 1 year	³ 2 years
Monthly Income		³ Ch\$0.4	³ Ch\$0.85
<u>Self-Employed</u>			
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.

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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		% of Bank's
	Outstanding	LTV ⁽²⁾⁽³⁾	Total
	Balance		Loans
	(in millions of Ch\$, except percentages)		
BANK'S INTERNAL REPORTING POLICIES:			
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:

	As of December 31, 2012	
	(in millions of Ch\$,	
	except percentages)	
BANK'S INTERNAL REPORTING POLICIES:		
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.

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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.

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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.

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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*, *Banjovent*, *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.

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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:

	As of December 31, 2012 (in millions of Ch\$, except	
BANK'S INTERNAL REPORTING POLICIES:	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.

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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:

	As of December 31, 2012 (in millions of Ch\$, except percentages)	
BANK'S INTERNAL REPORTING POLICIES:		
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).

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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:

	As of December 31, 2012 (in millions of Ch\$, except percentages)	
BANK'S INTERNAL REPORTING POLICIES:		
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

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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:

	As of December 31, 2012 (in millions of Ch\$,	
BANK'S INTERNAL REPORTING POLICIES:	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.

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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

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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:

BANK'S INTERNAL REPORTING POLICIES:	As of or for the year ended December 31, 2012		
	Assets	Equity (in millions of Ch\$)	Net Income
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

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

	Direct (%)	Ownership Interest 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.

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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\$)	Ch\$
2nd Best Chile Eeuu	Fixed income (medium/long term)		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 Commodity	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

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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

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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

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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.

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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

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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.

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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.

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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

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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.

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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, 2011	2012
	2010		
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, 2011	2012
	2010		
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