BANK OF CHILE
Form 20-F
April 26, 2012
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As filed with the Securities and Exchange Commission on April 25, 2012

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, 2011

Commission file number 001-15266

BANCO DE CHILE

(Exact name of Registrant as specified in its charter)

BANK OF CHILE

(Translation of Registrant s name into English)

REPUBLIC OF CHILE

(Jurisdiction of incorporation or organization)

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

(562) 637-1111

(Address of principal executive offices)

Pedro Samhan E.

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

Telephone: (562) 653-5150

Facsimile: (562) 653-5156

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

Shares of common stock: 86,942,514,973

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

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

U.S. GAAP ¨ IFRS x Other ¨

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

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

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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, pred could, may, will, should and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. These statements may relate to (i) our asset growth and financing plans, (ii) trends affecting our financial condition or results of operations and (iii) the impact of competition and regulations, but are not limited to such topics. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those described in such forward-looking statements included in this annual report as a result of various factors (including, without limitation, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates and operating and financial risks), many of which are beyond our control. The occurrence of any such factors not currently expected by us could significantly alter the results set forth in these statements.

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

- changes in general economic, business, political or other conditions in Chile, or changes in general economic or business conditions in Latin America or the United States;
- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies;
- increased costs;
- increased competition and changes in competition or pricing environments, including the effect of new technological developments;

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

natural disasters;

the effect of future tax laws on our business; and the factors discussed under Risk Factors.

You should not place undue reliance on forward-looking statements, which speak only as of the date that they were made. This cautionary statement should be considered in connection with any written or oral forward-looking statements that we may issue in the future. We do not undertake any obligation to 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 and 2011 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, 2011 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 Chilear (see Note 2(g) to our audited consolidated financial statements as of and for the year ended December 31, 2011 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, 2011, one UF equaled Ch$22,294.03.

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, 2011 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, from 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 30, 2011 (as December 31, 2011 was not a business day) 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 23, 2012 was Ch$488.60 = U.S.$1.00. As of the same date, the observed exchange rate was Ch$486.07 = 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.

Certain figures included in this annual report and in our audited consolidated financial statements as of and for the year ended December 31, 2011 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, 2011. 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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PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

SELECTED FINANCIAL DATA

The following tables present historical financial information about us as of the dates and for each of the periods indicated. The following tables should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements as of and for the year ended December 31, 2011 appearing elsewhere in this annual report. The financial information for the years ended December 31, 2008, 2009, 2010 and 2011 is presented under IFRS.

Our audited consolidated financial statements have been prepared in accordance with IFRS for the years ended December 31, 2008, 2009, 2010 and 2011.

	For the Year Ended December 31,				
	2008	2009	2010	2011	2011
	(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$ 1,659,350	Ch$ 900,407	Ch$ 1,092,003	Ch$ 1,501,684	U.S.$ 2,888,965
Interest expense	(885,263)	(222,883)	(324,377)	(624,209)	(1,200,864)
Net interest income	774,087	677,524	767,626	877,475	1,688,101
Net fees and commissions income	234,361	251,855	292,262	308,773	594,023
Net financial operating income	384,836	(138,179)	17,163	58,101	111,776
Foreign exchange transactions, net	(353,012)	220,999	63,762	(7,973)	(15,339)
Other operating income	30,937	22,190	23,584	24,735	47,586
Provisions for loan losses	(149,374)	(241,345)	(157,651)	(146,925)	(282,657)
Total operating expenses	(563,491)	(491,749)	(544,227)	(613,611)	(1,180,476)
Income attributable to associates	3,564	840	1,609	3,054	5,875
Income before income taxes	361,908	302,135	464,128	503,629	968,889
Income taxes	(35,313)	(40,389)	(46,513)	(65,442)	(125,897)
Net income from continued operations, net of taxes	326,595	261,746	417,615	438,187	842,992
Net income from discontinued operations, net of taxes	38,459				

Net income for the year	Ch$	365,054	Ch$	261,746	Ch$	417,615	Ch$	438,187	U.S.$	842,992
Attributable to:										
Equity holders of the parent		365,052		261,744		417,614		438,186		842,990
Non-controlling interest		2		2		1		1		2
Earnings per share(2)		4.52		3.18		5.06		5.04		0.009
Earnings per ADS		2,708.12		1,902.42		3,035.30		3,023.98		5.82
Dividends per share(3)		3.36		2.72		3.50		3.38		0.007
Weighted average number of shares (in millions)		80,746.98		82,185.28		82,551.70		86,942.51		

(See footnotes below)

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	As of December 31, 2008	2009	2010	2011	2011
	(in millions of Ch$, except share and per share data)				(in thousands of U.S.$)[1]
IFRS:					
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA					
Cash and due from banks	Ch$ 751,223	Ch$ 727,553	Ch$ 772,329	Ch$ 881,146	U.S.$ 1,695,164
Transactions in the course of collection	807,625	526,051	429,756	373,639	718,813
Financial assets held-for-trading	626,864	351,590	279,765	304,912	586,595
Receivables from repurchase agreements and security borrowing	75,519	79,401	82,787	47,981	92,307
Derivative instruments	902,351	565,986	488,354	381,055	733,080
Loans and advances to banks	321,992	448,981	349,588	648,425	1,247,451
Loans to customers, net	13,460,464	12,879,155	14,029,968	17,023,756	32,750,589
Financial assets available-for-sale	1,073,552	1,267,774	1,157,105	1,471,120	2,830,165
Investments in other companies	11,293	10,494	11,072	13,196	25,387
Intangible assets	94,324	88,182	88,463	81,026	155,879
Property and equipment	211,379	205,847	204,352	207,888	399,938
Investment properties	18,397	17,840	17,459	17,079	32,857
Current tax assets			3,363		
Deferred tax assets, net	21,868	49,733	57,678	60,025	115,477
Other assets	251,487	282,872	304,425	254,310	489,246
Total assets	Ch$ 18,628,338	Ch$ 17,501,459	Ch$ 18,276,464	Ch$ 21,765,558	U.S.$ 41,872,948
Current accounts and other demand deposits	3,007,261	3,718,076	4,446,181	4,895,426	9,417,903
Transactions in the course of payment	479,789	325,056	208,750	155,424	299,007
Payables from repurchase agreements and security Lending	420,658	308,028	81,755	223,202	429,400
Saving accounts and time deposits	8,472,590	7,427,481	7,697,968	9,282,324	17,857,491
Derivative instruments	863,514	538,240	528,445	429,913	827,074
Borrowings from financial institutions	1,498,549	1,368,226	1,281,372	1,690,939	3,253,057
Debt issued	1,900,087	1,587,998	1,764,165	2,388,341	4,594,731
Other financial obligations	93,708	176,150	179,160	184,785	355,492
Currents tax liabilities	9,053	39,018		3,095	5,954
Deferred tax liabilities, net					
Provisions	121,215	88,607	114,685	131,344	252,682
Employee benefits	45,912	43,202	55,433	60,634	116,649
Other liabilities	210,684	280,392	224,225	279,462	537,634
Total liabilities	Ch$ 17,123,020	Ch$ 15,900,474	Ch$ 16,582,139	Ch$ 19,724,889	U.S.$ 37,947,074
Total equity	1,505,318	1,600,985	1,694,325	2,040,669	3,925,874
Total liabilities and equity	Ch$ 18,628,338	Ch$ 17,501,459	Ch$ 18,276,464	Ch$ 21,765,558	U.S.$ 41,872,948

(See footnotes below)

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	As of December 31,			
	2008	**2009**	**2010**	**2011**
IFRS:				
CONSOLIDATED RATIOS				
Profitability and Performance				
Net interest margin(4)	5.16%	4.38%	4.70%	4.63%
Return on average total assets(5)	2.18	1.51	2.38	2.16
Return on average equity(6)	24.45	16.85	25.01	22.61
Capital				
Average equity as a percentage of average total assets	8.93	8.99	9.50	9.53
Bank regulatory capital as a percentage of minimum regulatory capital	204.04	234.93	232.85	245.42
Ratio of liabilities to regulatory capital(7)	15.02	11.87	12.99	12.31
Credit Quality				
Substandard loans as a percentage of total loans(8)	4.96	5.81	5.46	2.87
Allowances for loan losses as a percentage of substandard loans(8)	33.14	40.71	44.33	81.38
Provision for loan losses as a percentage of average loans	1.18	1.89	1.16	0.92
Allowances for loan losses as a percentage of total loans	1.64	2.37	2.42	2.33
Operating Ratios				
Operating expenses/operating revenue	52.60	47.54	46.74	48.66
Operating expenses/average total assets	3.37%	2.85%	3.10%	3.02%

(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, 2011 have been translated from Chilean pesos based on an exchange rate of accounting representation or spot exchange rate of Ch$519.80 to U.S.$1.00, as of December 30, 2011.

(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) made the rules more flexible that govern the purchase and sale of foreign currency. The Central Bank Act empowers the Central Bank to determine that certain purchases and sales of foreign currency specified by law must be carried out in the *Mercado Cambiario Formal* (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 30, 2011, the average exchange rate in the Informal Exchange Market was Ch$519.3 per U.S.$1.00, or 0.4% lower than the observed exchange rate of Ch$521.46 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 2007, as reported by the Central Bank:

	Daily Observed Exchange Rate Ch$ per U.S.$(1)			
	Low(2)	**High(2)**	**Average(3)**	**Period End(4)**
Year			**(in Ch$)**	
2007	493.14	548.67	522.47	495.82
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
October 2011	492.04	533.74	511.74	492.04
November 2011	490.29	526.83	508.44	524.25
December 2011	508.67	522.62	517.17	521.46
2012 (through April 23)	475.29	519.20	491.41	486.07
January 2012	485.35	519.20	501.34	488.99
February 2012	475.29	488.75	481.49	477.41
March 2012	476.27	491.51	485.40	489.76
April 2012 (through April 23)	482.17	488.96	485.89	486.07

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 23, 2012 was Ch$486.07 = 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, from December 1, 2011, Banco de Chile adopted the exchange rate of accounting representation, or spot exchange rate for such matters. The exchange rate of accounting representation is determined on a daily basis by our Treasury based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange.

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RISK FACTORS

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

We are subject to market risks that are presented both in this subsection and in Note 40 to our audited consolidated financial statements as of and for the year ended December 31, 2011 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, primarily as a result of an increase in residential mortgage and consumer loans, and, to a lesser extent, by an increase in commercial loans. The expansion of our loan portfolio (especially within 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, 2011, our loan portfolio amounted to Ch$17,430,447 million as compared to the amount of Ch$14,377,995 million that we recorded as of December 31, 2010, which represents a 21.2% annual increase. Similarly, our allowances for loans losses increased by 16.9%, from Ch$348,027 million in 2010 to Ch$406,691 million in 2011. Accordingly, our ratio of allowances for loan losses to total loans was 2.42% in 2010 and 2.33% in 2011.

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 has been fostered by a general effort of participants in the financial industry to broaden their value offerings, as well as by the robustness of the Chilean economy over the last decade. However, a slowdown or negative growth rate of the Chilean economy 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 non-banking businesses depending 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 will impose 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. We anticipate that this new regulation once applicable to us will result in a non-material decrease of our consolidated revenues.

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Additionally, there are several bills currently under consideration in Congress related to maximum legal interest rate. The Government s proposed law contemplates a reduction of applicable maximum interest rates from 1.50 times to 1.35 times the average interest rate for loans up to UF 200 (approximately U.S.$8,500) denominated in Chilean currency. 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 by the Government s bill, as of December 31, 2011, no more than 2.0% 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 Government s 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 Government s 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 a material adverse effect on our results of operations.

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. Many department stores grant consumer loans to a large portion of the Chilean population, especially the low and middle-income segments. The retail market (which comprises individuals and small and medium-sized companies) has become the target market of several banks, and competition with respect to this market is increasing as the banks are continuously incorporating new and targeted 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.

The increase in competition within the Chilean banking industry in recent years has led to consolidation in the industry. We expect trends of increased competition and consolidation to continue, resulting in the creation of larger financial groups. Consolidation, which can result in the creation of larger and stronger financial conglomerates, may adversely affect us because it may increase the interest rates we must pay to attract depositors and decrease the interest rates we charge our customers for loans, which result in a decrease of the net interest margins we are able to generate.

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 7.0% of our total loan portfolio as of December 31, 2011, including companies with annual sales of up to Ch$1,600 million) and, to a lesser extent, of lower-income individuals (approximately 4.3% of our total loan portfolio as of December 31, 2011, including individuals with monthly incomes that range from Ch$170,000 to Ch$400,000). Our strategy aims to increase lending and provide other services 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. For more information, see Item 4. Information on the Company Business Overview Principal Business Activities.

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

As of December 31, 2011, *Sociedad Administradora de la Obligación Subordinada S.A.* (SAOS), our affiliate, held 32.9% 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. Under the terms of its repayment obligation in favor of the Central Bank, SAOS agreed to replace the Central Bank subordinated debt, and may be required to sell some of our shares to the public. 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 indebtedness, SAOS received from SM-Chile S.A. (SM-Chile), the holding company that controls us and SAOS, 63.6% of our shares as collateral for this indebtedness. SAOS currently holds 32.9% of our shares. Dividends received from us are the sole source of SAOS s revenue, which it must apply to repay this indebtedness. However, under SAOS s agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness; SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds 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, 2012, SAOS maintained a surplus with the Central Bank of Ch$206,544 million, equivalent to 11.7% of our paid-in capital and reserves. 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 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.

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

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 82.9% of our operating revenue in 2011. 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 and other factors. Any volatility in interest rates could have a material adverse effect on us, including our financial condition and results of operations. The inflation rate was 1.38% in 2009, 2.96% in 2010 and 4.44% in 2011. The average annual short-term nominal interest rate in Chile for 90 to 360 day deposits received by Chilean financial institutions was 2.34% in 2009, 2.72% in 2010 and 5.61% in 2011. The average long-term nominal interest rate based on the interest rate of the Central Bank s five-year bonds was 4.65% in 2009, 5.54% in 2010 and 5.67% in 2011. 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 and 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. We provide our customers with continuous remote access to their accounts in several different ways and otherwise regularly transfer substantial financial assets by electronic means. Accordingly, cybersecurity is a material risk for us.

We depend on data processing, communication, and information exchange on a variety of platforms and networks over the internet. Thus, we cannot assure you that all of our systems are entirely free from vulnerability to attack. Additionally, we contract with several third-parties to provide the business, data, and communication services we need. 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.

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

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

Although emerging markets were less impacted by the global financial crisis 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 increased the risks of a new financial crisis and a potential contagion to other economies linked to these countries.

Similarly, at the moment 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. Accordingly, we cannot assure you that these developments will not occur or that they will not affect us.

As of December 31, 2011 we had a total exposure to PIIGS economies of U.S.$55 million, which represents 0.1% 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 10, 2012, LQ Inversiones Financieras S.A. (LQIF) a holding company beneficially owned by Quiñenco S.A., and Citigroup Chile S.A. holds directly and indirectly 59.32% 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.

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 2011, a daily average of 32,633 American Depositary Receipts (ADRs) were traded on the NYSE. Although our shares are traded on the Santiago Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange, the market for our shares in Chile is small and illiquid. As of December 31, 2011, approximately 15.5% of our outstanding shares were held by shareholders other than our principal shareholders, including 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, and 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 of 1933, as amended (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.

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Developments in international financial markets may adversely affect the market price of the ADSs and shares.

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

In particular, since August 2007 to date, 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. Although we are not directly exposed to the U.S. housing credit market and do not directly hold any assets related to such financial instruments, these write-downs, combined with other factors, led to a tightening in the credit markets and to a downturn in the U.S. economy, which impacted the Chilean economy towards the end of 2008. 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.$55 million as of December 31, 2011, we cannot assure you that volatility in global financial markets generated by the uncertainty of 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, as well as the contagion effects on more stable countries, such as Germany, that could translate into increasing volatility and uncertainty all over the world.

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

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

If for any reason, including changes in Chilean law, the depositary 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% tax from any dividend we pay to you.

ADSs owners are entitled to receive dividends on the underlying shares to the same extent as the holders of shares. Dividends received by ADSs owners will be paid net of foreign currency exchange fees and expenses of the depositary and will be subject to Chilean withholding tax of up to 35% of the dividend, which we will withhold and pay to the Chilean tax authorities. Any dividend distributions made in property (other than common stock) will be subject to the same Chilean tax rules as cash dividends. 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 activities and transactions are with customers doing business in Chile. Accordingly, our ability to increase our business scale and results of operations and enhance our financial condition, in general, depends on the dynamism of the Chilean economy. The global financial crisis, which affected the local economy towards the end of 2008 and during the first three quarters of 2009, also impacted the domestic financial system due to the deteriorated credit quality of the financial system s loan portfolio. Conversely, during 2010 and 2011 the local economy and financial system experienced a significant upturn, fostered by real growth in GDP which was associated with an increase in consumption and investment. Accordingly, over the last two years the Chilean banking industry, including us, returned to mid-term trends of growth and profitability. Nevertheless, we cannot assure you that the Chilean economy will continue to grow in the future or that future developments in, or affecting, the Chilean economy and the local financial system 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 against 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, 2010 and December 31, 2011, the value of the U.S. dollar relative to the Chilean peso increased by approximately 11.3%, as compared to the 7.5% decrease in value recorded in the period from December 31, 2009 to December 31, 2010.

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

Our results of operations may be affected by fluctuations in the exchange rates between the 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. As of December 31, 2011, 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 Ch$500.7 million, or 0.03% 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. Greater 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 2012 was:

Year	**Inflation (CPI)**
2007	7.8
2008	7.1
2009	(1.4)
2010	3.0
2011	4.4
2012 (through March 31)	0.6%

Source: Chilean National Institute of Statistics

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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.

A potential tax reform in Chile may increase our tax burden.

Though no bill has yet been submitted to Congress, there has been a recent announcement from the Government regarding a potential tax reform, specifically a potential increase in the corporate income tax rate. The effects of these potential changes cannot be quantified at this moment; however, these changes may adversely affect our results of operations, increase our costs or impact our profitability.

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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 corporations.

Our legal name is Banco de Chile. 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) 637-1111 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 credit and non-credit 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, consumer loans and automobile financing loans, as well as traditional deposit services, such as current accounts, demand deposits, savings accounts and time deposits. Our banking services for wholesale customers include commercial loans (which include factoring and leasing), foreign trade, capital markets services, cash management and non-credit 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, 2011, 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 and specialized financial services including securities brokerage, mutual funds management, investment banking services, factoring, insurance brokerage, securitization, collection and credit pre-evaluation services.

According to the Superintendency of Banks, as of December 31, 2011, we were the market leader in terms of total loans in Chile with a market share of 19.8%, the largest provider of commercial loans with a market share of 20.6%, the second largest provider of consumer loans with a market share of 22.3%, the second largest privately-owned bank in terms of residential mortgage loans with a market share of 16.4% and the largest privately-owned bank in terms of current accounts and demand deposits balances with a market share of 22.5%.

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As of December 31, 2011 we had:

- total assets of Ch$21,765,558 million (approximately U.S.$41,873 million);
- total loans of Ch$17,430,447 million (approximately U.S.$33,533 million), before deducting allowances for loan losses;
- total deposits of Ch$14,177,750 million (approximately U.S.$27,275 million) of which Ch$4,895,426 million (approximately U.S.$9,418 million) correspond to current account and demand deposits; and
- equity (including net income, non-controlling interest and provisions for minimum dividends) of Ch$2,040,669 million (approximately U.S.$3,926 million).

As of December 31, 2011, we had approximately 14,130 employees and delivered financial products and services through a nationwide distribution network of 441 branches, and 1,987 ATMs, that are part of a larger ATM network operated by Redbanc S.A. (a company owned by us and 11 other privately-owned financial institutions) that comprises 6,589 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 European operations 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, and in 1999, we established 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 mergers and acquisitions 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, 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 primarily operates in Santiago) and Banco CrediChile (which is focused on consumer loans and sight accounts). In 2011 we became the market leader in total loans and the most profitable bank (the highest return on average equity) within Chile, according to information released by the Superintendency of Banks. Similarly, we affirmed our leadership in mutual funds management, and stock brokerage earnings, while our investment banking subsidiary was recognized as the market leader in equity offering advisory services and ranked as the top advisor in corporate bond placements within the local market, according to Dealogic (an international monitor of capital markets) and information available at Superintendencia de Valores y Seguros. Also, during 2011 we carried out a capital increase of approximately U.S.$445 million, associated with the issuance of approximately 3.4 million of new common shares, which allowed us to support our loan growth and reinforce our capital base. This equity offering was successfully received by local and foreign investors and represented a 17% increase of our capital and reserves as of December 31, 2010. In addition, the capital increase translated into higher free float for our stock from 12.1% to 15.5%, which along with our significant market capitalization and trading volumes, resulted in our entry into the Emerging Markets MSCI Index.

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Merger with Banco de A. Edwards

On December 6, 2001, our shareholders approved the merger with Banco de A. Edwards, which became effective on January 1, 2002. Banco de A. Edwards had been listed on the NYSE since 1995, and in January 2002, we were listed on the NYSE under the symbol BCH. 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 by the end of 2002 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 at the end of 2008 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 to our local retail customers conducting transactions outside Chile. Similarly, this alliance enabled us to enhance our relationship with multinational companies operating in Chile. 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 2007, we achieved several milestones. We completed the migration of current accounts, lines of credit and sight accounts into a new module as part of a new core banking system. In addition, the CRM system and the teller solution were expanded to all of our networks. We also implemented a new anti-money laundering program that increases the quality and efficiency of our operational follow-up and alerts.

During 2008, our priorities were focused on operational and technological stabilization after the merger with Citibank Chile. We implemented critical initiatives, such as updating our core database, which included hardware upgrades and the improvement of batch process time and the performance of our front-end systems and middleware components.

During 2009, we focused on the stabilization and optimization of Banco CrediChile s processes in order to improve on-line and batch procedures performance. Additionally, we continued to improve our general infrastructure to reach higher levels of operational stability. We implemented new servers for current accounts and credit cards, enabling us to significantly reduce processing time. We also put into operation a new server for on-line current accounts. In addition, our technological support division handled important technical developments related to new products launched by us during this year, like RedGiro and Cuenta Móvil. RedGiro allows our customers to transfer money through our ATM network, while Cuenta Móvil permits clients and non-clients to make payments, money transfers and other operations through a mobile phone.

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

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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 (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.

Also worth noting is the development of new policies and systems intended to minimize fraud in electronic transfers and credit cards, as well as the attacks, vandalism, and robberies of ATMs, which are in line with 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 value and economic value of such loans. In November 1989, we repurchased our portfolio of non-performing loans from the Central Bank and assumed the Central Bank s subordinated debt relating to our non-performing loans.

The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch$1,398,038 million (in real terms) to date, 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 it contributed all of its assets and liabilities other than the Central Bank subordinated debt. SM-Chile then created SAOS, a second wholly-owned subsidiary that, pursuant to a prior agreement with the Central Bank, assumed a new repayment obligation in favor of the Central Bank that replaced the Central Bank subordinated debt in its entirety.

This Central Bank indebtedness, for which SAOS is solely responsible and for which there is no recourse to us or SM-Chile, was equal to the unpaid principal of the Central Bank subordinated debt that it replaced but had terms that differed in some aspects. The most important of these included a rescheduling of the debt for a term of 40 years providing for equal annual installments and a pledge of our shares as collateral for such debt. The Central Bank indebtedness bears interest at a rate of 5.0% per year

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and is denominated in UF. See Item 5. Operating and Financial Review and Prospects Operating Results Overview Inflation UF-Denominated Assets and Liabilities for a further explanation of UF.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile 63.6% of our shares as collateral for this indebtedness. 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%. As a result of the capital increases agreed upon in the Extraordinary Shareholders Meeting held in May 2007 and in the Extraordinary Shareholders Meeting held in January 2011, the share dividends paid in May 2006, May 2007, June 2009, March 2011 and March 2012, and the merger with Citibank Chile in January 2008, the percentage of our shares held by SAOS further decreased to 32.9%. Dividends received from us are the sole source of SAOS s revenue, to be applied by legal mandate to repay its indebtedness to the Central Bank of Chile. SAOS does not have any other material indebtedness, as it is a special purpose legal 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 indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our 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, 2012, SAOS maintained a surplus with the Central Bank of Ch$206,544 million, equivalent to 11.7% of our paid-in capital and reserves. 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, 2011, the outstanding subordinated debt balance held by SAOS amounted to Ch$821,312 million. SAOS paid to the Central Bank a total of Ch$97,973 million during 2009, Ch$101,972 million during 2010 and Ch$131,530 million during 2011, exceeding in each of these years the required minimum annual payment.

As of December 31, 2011, 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 SAOS, LQ Inversiones Financieras S.A. and SM-Chile, each having, a direct participation of 32.9%, 31.8% and 13.9% 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, 2009, 2010 and 2011:

	For the Year Ended December 31,		
	2009	2010	2011
	(in millions of Ch$)		
Computer equipment	Ch$ 7,161	Ch$ 7,922	Ch$ 8,797
Furniture, machinery and installations	4,540	8,658	9,425
Real estate	3,245	5,387	3,481
Vehicles	379	362	370
Subtotal	15,325	22,329	22,073
Software	7,529	15,326	9,597
Total	Ch$ 22,854	Ch$ 37,655	Ch$ 31,670

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Our budget for capital expenditures in 2012 is Ch$41,287 million, 70.5% of which is related to information technology expenditures and 29.5% of which is related to infrastructure projects. This level of capital expenditures is in line with our strategic aim 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, 40.1% is related to improvements to our main infrastructure, 39.5% is for projects related to new business solutions and the expansion of our distribution network and the remaining amount relates to technological renewal and the development of projects intended to improve the productivity of our support areas.

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 investments.

BUSINESS OVERVIEW

Our Competitive Strengths

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

Our main competitive advantages are:

Brand Recognition and Strong Corporate Image

We have been operating in Chile for 118 years under the Banco de Chile brand name. In order to provide our customers with differentiated value offerings and a wider range of 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 and reliability within the Chilean financial system, 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 2011 we were the most recognized brand among financial institutions operating in Chile. Also in 2011, Merco (a corporate reputation monitor from Spain) named Banco de Chile as the market leader in corporate reputation within the Chilean banking industry. Similarly, Santander Global Banking and Markets, along with Revista Capital (a monthly local business review) ranked Banco de Chile as the bank with the highest amount of value creation within the local financial system. 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 and sound financial institution within Chile and allowed us to gain international recognition among customers and investors.

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 commitment to the development of sports education and participation in Chile, 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.

Nationwide Branch Network and Business-Oriented Service Models

We are present in all regions of Chile and strive to be accessible to every Chilean customer through our broad branch network. As of December 31, 2011, we had a nationwide branch network of 441 branches, the largest within the Chilean banking industry, according to information published by the Superintendency of Banks. This network comprised 233 branches under our Banco de Chile brand name, 38 branches under our Banco Edwards|Citi brand name and 170 branches that operate 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. During 2010, we established a Bicentennial Plan to open new branches, which resulted in 22 new branches in 2010 and 25 new branches in 2011, with a special focus on cities outside of Santiago.

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 believe that our nationwide branch network and our customer-oriented service models enable us to offer more services and products in every region of Chile, enhance our cross-selling capacity and improve our service quality.

Robust Customer Base and Diversified Products and Services Portfolio

We believe that we have one of the largest customer bases among financial institutions in Chile and we provide one of the most diversified array of products and services to our customers. As of December 31, 2011, we had approximately 1,740,000 customers, including: approximately 1,030,000 borrowers, nearly 630,000 current accounts customers, approximately 150,000 time deposits, about 415,000 saving accounts and approximately 1,340,000 issued credit cards. 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, securitization, factoring, financial advisory, insurance brokerage and other financial services. In addition, our recent strategic alliance with Citigroup Inc. and the Global Connectivity Agreement we entered into have allowed us to broaden our service offerings by adding a comprehensive portfolio of international financial services that previously we could only partially provide.

We believe that our robust customer base is both an essential driver of our business that allows us to develop new products and services according to new market trends and a valuable asset that enables us to improve cross-sales of our products and services.

Highly 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. According to the Superintendency of Banks, as of December 31, 2011, we held 22.5% of the demand deposits and current account balances within the Chilean financial system, being the leading privately-owned bank in this matter. As of that same date, these non-interest bearing liabilities represented 23.7% of our total funding structure as compared to the 17.2% reported by the Chilean financial system as a whole (excluding Banco de Chile).

Accordingly, we believe that our funding structure provides us with a 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 trying to diversify our funding structure. In that effort, during 2011 we successfully placed roughly U.S.$1,400 million in senior bonds within the local market. In addition, we entered into a syndicated credit agreement of U.S.$200 million with a group of 15 Asian financial institutions, registered a debt shelf of approximately U.S.$720 million in Mexico and placed senior bonds of U.S.$110 million by using that debt shelf at the end of the year.

Superior Asset Quality

We believe we are the Chilean financial institution with the highest credit quality and the healthiest loan portfolio within the Chilean financial system. We believe our 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, 2011, 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 2.7% reported by the Chilean financial system (excluding Banco de Chile) 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, 2011 was equal to 2.1 times as compared to 0.9 times for the Chilean financial system (excluding Banco de Chile).

Attractive Risk-Return Relationship

We believe we have become one of the financial institutions with the highest risk-return relationship within the Chilean financial system.

According to information published by the Superintendency of Banks, as of December 31, 2011, we ranked as the market leader in terms of return-on-average-equity (calculated as net income attributable to shareholders divided by the average equity balance) with a ratio of 24.0%, well above the 16.3% posted by the Chilean financial system as a whole (excluding Banco de Chile) as of the same date. We also ranked first in terms of return-on-average-assets with a ratio of 2.1% as of December 31, 2011, which surpassed the 1.3% reported by the Chilean financial system (excluding Banco de Chile) as of the same date.

In terms of credit risk, as published by the Superintendency of Banks, as of December 31, 2011, our ratio of provisions for loan losses to average loans was 0.79%, which is below the 1.27% recorded by the Chilean financial system (excluding Banco de Chile) as of the same date.

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, 2011	
	Market Share	**Market Position**
Total Loans to Customers	19.8%	1st
Commercial Loans	20.6%	1st
Consumer Finance Loans(1)	27.2%	1st
Current Accounts Balances	22.9%	1st
Mutual Funds (Assets under management)	23.3%	1st
Stock Brokerage Earnings	24.9%	1st
Consolidated Fees and Commissions Income	25.4%	1st

Source: Superintendency of Banks, Chilean Mutual Funds Association and the Chilean Securities Commission.

(1) This category includes loans granted by consumer divisions of banks (CrediChile, Banefe, Banco Nova and Banco Condell) and banks specialized in this segment (Banco Falabella, Banco Paris and Banco Ripley). It does not include Banco del Estado. Information as of October 31, 2011, the latest available data.

We have been traditionally recognized as a financial institution with a strong presence in the corporate segment that establishes 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 complementing them with comprehensive service models that allow us to successfully serve our customers needs.

In the retail banking segment, our Consumer Finance Division (Banco CrediChile) has become the largest provider of consumer loans among the Chilean banks consumer divisions, based on comprehensive service offerings for low- and middle-income individuals, as well as our recent merger with Citibank Chile that allowed us to nearly double our market share in this segment as we added Citibank Chile s former consumer division Financiera Atlas . Similarly, 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. 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 soundness, prestige and brand recognition among Chilean customers have allowed us to become the market leader in terms of current accounts balances within the Chilean financial system. 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.

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We believe that our leadership position and our level of knowledge of Chilean customers needs reinforces our competitive strengths.

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 system 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 with greater 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.

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 nor 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 tailor-made 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.

As for the latter, during 2010 we created a new Credit and Debit Card Division, which supports our credit-lending units divisions in defining marketing plans and strategies intended to increase the use of our credit and debit cards, while promoting customer loyalty through those products. This division affirmed its strategic relevance in 2011 as it supported the issuance of more than 350,000 new credit cards while implementing a strategic alliance with a mobile phone service provider that translated into the new Banco de Chile | Entel credit card, which permits the exchange of points (accumulated through purchases) for mobile phone minutes and accessories. These actions, along with positive developments in the Chilean economy, allowed us to reach a 27.9% market share in purchases and cash withdrawals made by credit cards within the Chilean financial system. Also, our aim is to continue being an innovative bank within the Chilean financial system and therefore we expect to increase the use of information technologies in our commercial efforts, as part of our value offering. Accordingly, in 2011 we launched our new Banca Móvil , a mobile banking solution for our retail banking customers available on tablets and smartphones. As of December 31, 2011, this application had been downloaded more than 80,000 times and we had more than 60,000 active customers using this new solution. During 2011 we also improved our internet-based services by renewing and enhancing our websites directed to small and medium sized companies, as well as low, middle and high-income individual 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, 2011 we had a 22.3% market share in consumer loans and a 16.4% market share in residential mortgage loans, which are 3.3% and 6.9% below the market leader, respectively. Due to our effective commercial strategies, during 2011 we were able to substantially reduce the gap between us and the market leader in both products. Prior to 2011 the gap was 5.6% in consumer loans while it was 8.8% 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, our efforts are concentrated 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 1.2 times in 2007 to 1.5 times in 2011. 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 other financial activities 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 source of revenue, reaching Ch$292,262 million (or 25.1% of our total operating revenues) in 2010 and Ch$308,773 million (or 24.5% of our total operating revenues) in 2011. 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.

We are also constantly looking for profitable business opportunities with potential partners, such as our merger with Citibank Chile.

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$56,300 million (approximately Ch$14,700 million, Ch$23,200 million and Ch$18,400 million in 2009, 2010 and 2011, 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 2011, we prioritized the start-up of our data processing center and the upgrade of our contingency site, which allows us to increase our operational productivity while reducing the operational risks. Also, in order to focus our efforts on our core business, we entered into a long-term contract with a technology provider, who will be responsible for managing and maintaining our mainframes.

As a result, we have improved our efficiency ratio since 2009. During 2009, 2010 and 2011, our consolidated operating expenses represented respectively 47.5%, 46.7% and 48.7% (including non-recurring items that account for 2.3% of the ratio) of our consolidated operating revenues. We believe this improvement is partially attributable to our successful merger with Citibank Chile, since it generated synergies in several of our business segments.

We expect to continue improving 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 automatization 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 division responsible for assessing and improving the quality of our services. This division has set new policies and projects to achieve the highest service quality standards within the Chilean banking industry. The division 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.

In addition, diverse projects have been undertaken by the Bank in order to improve service quality, such as: (i) identifying new customer segments and sub-segments in retail and wholesale banking segments, (ii) implementing new value propositions with an emphasis on service excellence which include new service models, (iii) enhancing our service quality through an ongoing plan that identifies the key behaviors of our customers and developing a service protocol for different kinds of clients, (iv) significantly improving our delivery time for products, (v) reinforcing our Internet channel and business units in order to increase information processing capacity, allowing us to manage larger volumes of business with improved response time, (vi) enhancing quality at branches, and (vii) implementing different performance evaluation measures to compare our service quality levels with those of our competitors, and (viii) incorporating good practices used in other markets, industries and countries.

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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, we have 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. Similarly, in 2011 we implemented diverse human resources performance metrics, such as: (i) a competence evaluation that allowed us to determine areas of improvement for approximately 8,500 employees, (ii) a 360° evaluation system for our mid-level managers. In addition, we established a meritocracy-oriented educational program *Jefes para el Chile* that led to the promotion of approximately 800 employees.

Ownership Structure [1]

The following diagram shows our ownership structure as of February 29, 2012:

(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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Principal Business Activities

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

The information relating 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, 2009, 2010 and 2011 Business Segments and Item 5. Operating and Financial Review and Prospects Results of Operations for the Years Ended December 31, 2009, 2010 and 2011 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 net income before tax in accordance with our internal reporting policies for the year ended December 31, 2011, allocated among our principal business segments:

BANK S INTERNAL REPORTING POLICIES:	Total Loans		Consolidated Net Income(1) (2)
	For the Year Ended December 31, 2011 (in millions of Ch$, except percentages)		
Retail market	Ch$ 8,294,469	47.7%	Ch$ 259,962
Wholesale market	8,668,738	49.9%	149,032
Treasury and money market operations			20,264
Operations through subsidiaries	414,586	2.4%	59,136
Other (Adjustments and Eliminations)			
Total	Ch$ 17,377,793	100.0%	Ch$ 488,394

(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 aspects 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.

(2) Consolidated net income consists of net income by business segment before tax expenses.

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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,		
	2009	2010	2011
BANK S INTERNAL REPORTING POLICIES:		(in millions of Ch$)	
Retail market	Ch$ 588,373	Ch$ 672,527	Ch$ 767,750
Wholesale market	259,027	281,058	288,058
Treasury and money market operations	60,072	77,723	31,432
Operations through subsidiaries	131,097	150,312	148,670
Other (adjustments and eliminations)	(12,307)	(12,838)	(12,128)
Total Operating Revenues	Ch$ 1,026,262	Ch$ 1,168,782	Ch$ 1,223,782

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,		
	2009	2010	2011
BANK S INTERNAL REPORTING POLICIES:		(in millions of Ch$)	
Chile	Ch$ 1,038,498	Ch$ 1,181,530	Ch$ 1,235,817
Banking operations	907,472	1,031,308	1,087,240
Operations through subsidiaries	131,026	150,222	148,577
Foreign operations	71	90	93
Operations through subsidiaries	71	90	93
Other (adjustments and eliminations)	(12,307)	(12,838)	(12,128)
Total Operating Revenues	Ch$ 1,026,262	Ch$ 1,168,782	Ch$ 1,223,782

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, 2011, we had a total of 441 branches, of which 271 operated under our Banco de Chile and Banco Edwards Citi brand names and 170 operate under the Banco CrediChile brand name.

As of December 31, 2011, our retail segment represented 47.7% of our total loans and accounted for Ch$259,962 million of our net income before taxes for the year ended December 31, 2011.

In terms of composition, as set forth in the following table, our retail market business segment s loan portfolio as of December 31, 2011 was principally focused on residential mortgage loans, which represented 43.4% of the segment s portfolio. The remaining loans were distributed between consumer credits (30.8%) and commercial credits (25.8%).

BANK S INTERNAL REPORTING POLICIES:	As of December 31, 2011 (in millions of Ch$, except percentages)	
Commercial loans	Ch$ 2,138,529	25.8%
Residential mortgage loans	3,598,751	43.4
Consumer loans	2,557,189	30.8

Total	Ch$ 8,294,469	100.0%

We serve the retail market business segment 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$400,000 (or Ch$4.8 million per year) and to small and medium-sized companies with annual sales of up to approximately Ch$1,600 million. This division manages the portion of our branch network that operates under the brand names Banco de Chile and Banco Edwards Citi and had 271 branches as of December 31, 2011.

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The strategy followed by the Commercial Division (Individual and SME Banking) is mainly focused on sub-segmentation, multi-brand positioning, cross-sales 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 2011, this division also developed Banca Móvil , a successful internet-based solution which allows our costumers to make banking transactions from their tablets and smartphones.

As of December 31, 2011, the Commercial Division (Individual and SME Banking) served 791,040 individual customers (hereafter customer should be understood as the sum of individuals or companies that hold at least a current account, a credit or a sight account) and 67,128 small- and medium-sized Chilean companies. This customer base resulted in total loans to 580,884 debtors, which includes 80,977 residential mortgage loans debtors, 81,191 commercial loan debtors, 344,960 utilized lines of credit, 309,753 installment loans and 850,075 credit card accounts. As of the same date, the division held 629,835 current accounts, 155,168 savings accounts and 137,944 time deposits.

As of December 31, 2011, loans originated by our Commercial Division (Individual and SME Banking) represented 43.4% of our total loans and 90.9% 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, 2011:

BANK S INTERNAL REPORTING POLICIES:	As of December 31, 2011 (in millions of Ch$, except percentages)	
Commercial Loans		
Commercial credits	Ch$ 1,818,380	24.1%
Leasing contracts	210,646	2.8
Other loans	105,522	1.4
Total Commercial Loans	2,134,548	28.3
Residential Mortgage Loans	3,546,846	47.0
Consumer Loans		
Installment loans	1,132,190	15.0
Credit cards	497,544	6.6
Lines of credit and other loans	231,685	3.1
Total Consumer Loans	1,861,419	24.7
Total	Ch$ 7,542,813	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 and affiliates, such as current accounts, automatic bill payment, debit cards, credit cards, revolving credit lines, housing loans, consumer loans, commercial loans, mortgage loans, leasing agreements, factoring services, investment management, support in import and export transactions, collection services, payments and collections, insurance brokerage (which handles life and casualty insurance), savings instruments, mutual funds, stock trading and foreign currency services.

Installment Loans

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

As of December 31, 2011, we had Ch$1,132,190 million in installment loans granted by our Commercial Division (Individual and SME Banking), which accounted for 44.3% 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, 2011, we had outstanding residential mortgage loans of Ch$3,546,846 million, which represented 42.8% of the retail market business segment s total loans and 20.4% of our total loans. According to information published by the Superintendency of Banks, as of December 31, 2011 we were Chile s second largest privately-owned bank in terms of mortgage loans, accounting for approximately 20.9% of mortgage loans granted by Chilean privately-owned banks, excluding loans granted by Banco del Estado, a government-owned bank.

Our residential mortgage loans are generally denominated in UF and have maturities that range between five and thirty years. To date, the average residual maturity of our residential mortgage loan portfolio was 16.9 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 can 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, 2011 our residential mortgage loan portfolio was principally composed of Mutuos Hipotecarios, as customers have preferred them due to their flexibility and simplicity, as they permit financing of up to 100% of the property s purchase price and are easier to prepay.

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

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2011 (in millions of Ch$, except percentages)**	
Secured Residential Mortgage Loans[1]		
Loans financed with Mortgage Bonds	Ch$ 134,377	3.7%
Mutuos Hipotecarios	3,473,057	96.3
Total Secured Other-than-Mortgage Loans	Ch$ 3,607,434	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, 2011 residential mortgage loans financed with Mortgage Bonds represented 3.7% of our total residential mortgage loan portfolio, while the remaining 96.3% corresponded to Mutuos Hipotecarios. As of the same date, loans financed with Mortgage Bonds had an average origination period of 11 years (the period from the date when the loans were granted) and 23.7% of these loans were granted by CrediChile. Conversely, as of December 31, 2011 the Mutuos Hipotecarios portfolio had an average origination period of 4.3 years (the period from the date when the loans were granted) and just 0.6% of these loans were granted by CrediChile. In terms of credit risk, in 2011, loans financed with Mortgage Bonds, as well as *Mutuos Hipotecarios,* had low gross credit risk ratios of 0.27% 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 finance up to 100% of the property s purchase price.

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.

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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)

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

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

During 2011, 36.2% of the residential mortgage loans granted to our customers financed between 90% and 100% of the property value. Similarly during 2011, loans financing between 75% and 90% of the property appraised value represented 30.9% of these loans, loans financing between 50% and 75% of the property value represented 21.6% of these loans, and loans financing less than 50% of the property value represented 11.3% of these loans.

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, 2011 are depicted in the table below:

	As of December 31, 2011		
	Outstanding Balance	**LTV (2)(3)**	**% of Bank s Total Loans**
BANK S INTERNAL REPORTING POLICIES:	**(in millions of Ch$, except percentages)**		
Secured Loans[1]			
Residential Mortgage Loans	Ch$ 3,607,434	57.1%	20.8%
Other than mortgage loans	395,373	14.6	2.3
Total Secured Loans	Ch$ 4,002,807	63.3%	23.1%

(1) Correspond to Bank s total secured loans and not only those associated with the Commercial Division (Individual and SME Banking).
(2) 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.

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

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2011 (in millions of Ch$, except percentages)**	
Secured Other-than-Mortgage Loans[1]		
Consumer Loans	Ch$ 237,818	60.1%
Credit Lines	44,632	11.3
Credit Cards	112,923	28.6
Total Secured Other-than-Mortgage Loans	Ch$ 395,373	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).

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Finally, it is important to mention that unlike 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 determined 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.

Credit Cards

As of December 31, 2011, we issued both individual and corporate Visa, MasterCard and Diners credit cards. In addition to traditional credit cards, our portfolio also includes co-branded cards (e.g., Travel Club, Global Pass, and Advantage, among others), and 61 affinity card groups, most of which were associated with our co-branded programs.

Two of our affiliates, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2011, Transbank S.A. had 12 shareholders and Nexus S.A. had seven shareholders, all of which were banks. As of December 31, 2011, 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, 2011, the division had 850,075 valid credit card accounts, with 1,024,478 credit cards issued to individuals and small and medium-sized companies. Total charges on our credit cards during 2011 amounted to Ch$1,747,624 million, with Ch$1,518,230 million corresponding to purchases and service payments in Chile and abroad and Ch$229,394 million corresponding to cash advances both within Chile and abroad. These amounts (which do not include the charges associated with our CrediChile s credit cards) accounted for 26.4% of the total charge volume of bank credit cards issued in Chile in 2011, according to monthly statistics provided by Transbank S.A.

As of December 31, 2011, our credit card loans to individuals and small and medium-sized companies amounted to Ch$497,544 million and represented 19.5% 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 and the large department stores and other non-banking businesses that are involved in the issuance of credit cards. As a result, in 2010 we created a new Credit and Debit Card Division, 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 latter division issued roughly 230,000 new credit cards in 2011 and entered into a strategic alliance 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 have fixed or variable rates of interest and generally mature between one and three months. As of December 31, 2011, our Commercial Division (Individual and SME Banking) had outstanding commercial loans of Ch$1,818,380 million, representing 21.9% of the retail market business segment s total loans and 10.5% of our total loans as of the same date.

Leasing Contracts

Leasing contracts are financing leases for capital equipment and property. Leasing contracts may have fixed or variable interest rates and generally mature within one and five years for equipment and within five and twenty years for property. Most of these contracts are denominated in UF. As of December 31, 2011, our Commercial Division (Individual and SME Banking) had outstanding leasing contracts of Ch$210,646 million, representing 2.5% of the retail market business segment s total loans and 1.2% 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 made to finance offices, land, facilities and other real estate. Non-residential mortgage loans are denominated in UF and generally have maturities between eight and twelve years. As of December 31, 2011, our Commercial Division (Individual and SME Banking) had non-residential mortgage loans of approximately Ch$80,495 million, representing 1.0% of the retail market business segment s total loans and 0.5% of our total loans as of the same date.

Debit Cards

We offer different types of debit cards to our customers. Depending on their specifications, these cards can be used for banking transactions at ATMs that operate on the local network, such as Redbanc, the Visa International PLUS network, the local network of merchants participating in the local Redcompra debit program or the international network of merchants associated with the Electron program. We have given different names to these debit cards depending on the card s specific functions and the link between the brand and target market which they serve. During 2011, we offered the following cards: *Chilecard*, *Chilecard Plus*, *Chilecard Electron*, *Banjoven*, *Multiedwards,* and *Citicard*. As of December 31, 2011, according to monthly statistics provided by Transbank S.A., the division had a 19.6% market share of debit card purchase transactions (not including Banco CrediChile s debit cards, as those are reported under our Consumer Finance Division), which corresponds to approximately 48.4 million purchases performed throughout the year.

Lines of Credit

We had approximately 531,009 approved lines of credit to individual customers and small and medium-sized companies as of December 31, 2011, and outstanding advances to 344,960 individual customers and small and medium- sized companies that totaled Ch$288,571 million, or 3.5% of the retail market business segment s 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 are 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 could also be 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.

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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$400,000), 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 170 Banco CrediChile branches as of December 31, 2011. Banco CrediChile was established in 2004 from what was formerly our consumer banking division. During 2008, the business of 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, automobile financing loans, residential mortgage loans and a special demand deposit account (see Bancuenta) targeted at low-income customers. As of December 31, 2011, Banco CrediChile had 857,946 customers and total loans outstanding that amounted to Ch$751,656 million, representing 4.3% of our total loans outstanding as of the same date.

The following table sets forth the composition of Banco CrediChile s loan portfolio in accordance with our internal reporting policies, as of December 31, 2011:

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2011 (in millions of Ch$, except percentages)**	
Consumer loans		
Installment loans	Ch$ 625,693	83.2%
Credit cards	69,843	9.3
Lines of credit	234	0.1
Total consumer loans	695,770	92.6
Residential mortgage loans	51,905	6.9
Commercial loans	3,981	0.5
Total	Ch$ 751,656	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.

The Superintendency of Banks requires greater 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.

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Consumer Lending

Banco CrediChile provides short to medium-term consumer loans and credit card services. As of December 31, 2011, Banco CrediChile had approximately 354,857 consumer loan debtors related to Ch$625,693 million. As of the same date, Banco CrediChile customers had 306,253 valid credit card accounts, with outstanding balances of Ch$69,843 million.

Bancuenta

Banco CrediChile offers its customers Bancuenta, 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 Bancuenta account is a non-interest bearing demand deposit account without checking privileges targeted at customers who want a secure and comfortable means of managing and accessing their money. Customers may use an ATM card linked to their Bancuenta account (which may include a revolving line of credit) to make deposits or automatic payments to other Banco CrediChile accounts through a network of 1,987 ATMs available through the Redbanc network as of December 31, 2011.

As of December 31, 2011 Banco CrediChile had 820,237 Bancuenta accounts. Bancuenta account holders pay an annual fee, a fee related to the number of withdrawals on the Bancuenta line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a Bancuenta account are withdrawn automatically on a monthly basis from funds available in the account. Bancuenta allows us to offer our 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 2011, this business segment recorded annual operating revenues of approximately Ch$288,058 million, which represented 23.5% of our total operating revenues, and annual net income before taxes of Ch$149,032 million, which represented 30.5% of our consolidated net income before taxes. As of December 31, 2011 loans made by this business segment amounted to Ch$8,668,738 million and represented 49.9% 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, 2011:

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2011 (in millions of Ch$, except percentages)**	
Commercial credits	Ch$ 6,031,058	69.6%
Foreign trade loans	1,477,576	17.0
Leasing loans	785,877	9.1
Factoring loans	183,826	2.1
Other loans	190,401	2.2
Total	Ch$ 8,668,738	100.0%

As of December 31, 2011, we had 9,798 debtors out of a total of 21,893 wholesale customers. Our wholesale customers are engaged in a wide range of industry sectors. As of December 31, 2011, this business segment s loans were mainly related to:

commerce and trade (approximately 20.7% of all loans made by this business segment);

financial services (approximately 18.7% of all loans made by this business segment);

manufacturing (approximately 13.3% of all loans made by this business segment);

community, social and personal services (approximately 13.1% of all loans made by this business segment);

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- communication and transportation (approximately 11.8% of all loans made by this business segment);
- agriculture, forestry and fishing (approximately 8.8% of all loans made by this business segment);
- construction (approximately 8.0% of all loans made by this business segment);
- utilities (approximately 3.1% of all loans made by this business segment); and
- mining (approximately 2.5% of all loans made by this business segment).

In line with our strategy of identifying and differentiating market segments in order to provide improved value propositions for specific customers, 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 that operate in the financial, commercial, manufacturing, industrial and infrastructure sectors), and projects and concessions.

As of December 31, 2011, we had 804 large corporations as debtors out of a total of 4,269 customers in our Corporate Division with total outstanding loans of Ch$4,091,155 million, which represented 23.5% of our total outstanding loan portfolio 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, 2011:

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2011 (in millions of Ch$, except percentages)**	
Commercial credits	Ch$ 3,207,290	78.3%
Foreign trade loans	584,861	14.3
Factoring loans	124,926	3.1
Leasing loans	89,966	2.2
Other loans	84,112	2.1
Total	Ch$ 4,091,155	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, 2011, we were party to approximately 1,033 payment service contracts and approximately 210 collection service contracts with large 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 large 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 and short-term loans requirements. 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.

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In recent years, the market for loans to large corporations in Chile has been characterized by reduced profit margins, partly due to a more direct access of such customers to domestic and international capital markets and other funding sources. 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 large corporate customers while preserving the ability to extend credit when appropriate business opportunities arise.

During 2011, we consolidated the customer service model implemented during 2009 and 2010, which enabled us to improve the division s cross-sell and customer satisfaction indicators. In fact, we increased the average number of calls to our corporate customers by approximately 12%, while we achieved above 50% penetration in the multinational companies segment. Also, throughout 2011 the division carried out important transactions in the local market and established policies to enhance our cash management services by reshaping and improving the quality and consistency of our services.

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, 2011, we had 8,994 large companies as debtors out of a total of 17,624 customers in our Large Companies and Real Estate Division. Loans to large companies totaled approximately Ch$4,577,583 million as of the same date, which represented 26.3% 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, 2011:

BANK S INTERNAL REPORTING POLICIES:	As of December 31, 2011 (in millions of Ch$, except percentages)	
Commercial credits	Ch$ 2,823,768	61.7%
Foreign trade loans	892,715	19.5
Leasing loans	695,911	15.2
Factoring loans	58,900	1.3
Other loans	106,289	2.3
Total	Ch$ 4,577,583	100.0%

The products and services offered to large companies 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. In 2009, to improve the division s service quality standards, our Large Companies and Real Estate Division redesigned its service model to take advantage of synergies arising from the interaction of account and specialized support executives responsible for ensuring comprehensive customer service. These modifications enabled the division to strengthen customer relationships and increase market share, as well as product offerings.

During 2010 and 2011, the division continued consolidating this service model, particularly within the metropolitan region of Santiago, which translated into significant increases in loans granted by our Large Companies and Real Estate Division and important improvements in customer satisfaction and market recognition. Similarly, in 2011 the division achieved important increases in loans associated with factoring, leasing and foreign trade as a result of the implementation of this service model in regions outside Santiago, attaining significant improvements in customer recommendation and satisfaction. This service model is based on a joint program

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developed with our Corporate Risk Division and the Large Companies and Real Estate Division that creates multi-disciplinary teams composed of an executive officer in charge of commercial duties and a credit risk analyst for customer calls in order to carry out on-site evaluations of our customers needs.

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

Treasury and Money Markets Operations

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

In addition, our treasury and money market operations business segment is focused on managing currency, interest rate and maturity gaps, ensuring adequate liquidity levels, managing our investment portfolio and 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 funding costs of the local financial system, comparing them with our own.

During 2011, our treasury and money market operations segment conducted significant transactions in order to achieve our goal of diversifying our funding structure. The main operations executed during the year were: a syndicated credit of approximately U.S.$200 million with 15 Asian financial institutions, the issuance of approximately U.S.$1,400 million in senior bonds within the local market and a shelf registration of corporate bonds in Mexico for approximately U.S.$720 million. As of December 31, 2011 we had issued roughly U.S.$110 million from this debt shelf.

As of December 31, 2011, our securities portfolio amounted to Ch$1,773,810 million and was composed of available-for-sale securities that totaled Ch$1,468,898 million and securities held for trading that amounted to Ch$304,912 million. As for the type of instruments included in our securities portfolio, as of December 31, 2011, 27.6% consisted of securities issued by the Central Bank and the Chilean Government, 9.2% consisted of securities from foreign issuers, 52.2% consisted of securities issued by local financial institutions and 11.0% consisted of securities issued by Chilean corporate issuers and other securities. 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.

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, 2011, 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 41 account relationships. IFI played an important role in structuring international transactions aimed at diversifying our funding.

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, 2011:

BANK S INTERNAL REPORTING POLICIES:	As of or for the year ended December 31, 2011 Assets	Equity (in millions of Ch$)	Net Income
Banchile Trade Services Limited (Hong Kong)	Ch$ 778	Ch$ 757	Ch$ 65
Banchile Administradora General de Fondos S.A.	65,725	62,148	17,267
Banchile Asesoría Financiera S.A.	4,371	3,299	1,557
Banchile Corredores de Seguros Ltda	8,921	6,701	3,997
Banchile Corredores de Bolsa S.A.	577,883	96,024	21,995
Banchile Factoring S.A.	407,056	45,985	4,218
Banchile Securitizadora S.A.	494	395	31
Socofin S.A.	6,961	945	383
Promarket S.A.	1,995	834	102
Total	Ch$ 1,074,184	Ch$ 217,088	Ch$ 49,615

The following table sets forth information with respect to our ownership interest in our financial services subsidiaries as of December 31, 2011:

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

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

Securities Brokerage Services

We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores de Bolsa S.A. is registered as a securities broker with the *Superintendencia de Valores y Seguros de Chile* (the Chilean Superintendency of Securities and Insurance), the regulator of Chilean publicly listed companies, and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores de Bolsa S.A. has provided stock brokerage services, fixed-income investments and foreign exchange products to individuals and companies through our branch network. During the year ended December 31, 2011, 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$8,327,296 million. As of December 31, 2011, Banchile Corredores de Bolsa S.A. had equity of Ch$96,024 million and, for the year ended December 31, 2011, recorded net income of Ch$21,995 million, which represented 5.1% 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, 2011, 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 23.3%

of all Chilean mutual funds assets. As of December 31, 2011, Banchile Administradora General de Fondos S.A. operated 71 mutual funds and had Ch$4,122,057 million in assets under management from more than 319,508 corporate and individual investors. Also, as of December 31, 2011, Banchile Administradora General de Fondos S.A. operated six investment funds: Chile Small Cap, Latam Small Mid-Cap, Plusvalia Eficiente, Chile Blend and Banchile Inmobiliario IV and V, managing Ch$198,224 million in net assets on behalf of 172 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, 2011:

Name of Fund	Type of Fund	Net Asset Value As of December 31, 2011 (in millions of Ch$)
Ahorro	Fixed income (medium/long term)	23,314
Ahorro Estable Garantizado	Fixed income (medium/long term)	20,571
Ahorro Plus I	Fixed income (medium/long term)	796
Alianza	Fixed income (medium/long term)	81,297
América Latina Accionario	Equity	16,522
Andes Acciones	Debt/Equity	1,548
Asia Fund	Debt/Equity	7,434
Asiático Accionario	Equity	11,456
Balance I	Debt/Equity	25,046
Banca Americana Voltarget Garantizado	Fixed income (medium/long term)	13,806
Banchile Acciones	Equity	72,273
Booster Australia	Fixed income (medium/long term)	1,709
Booster Chile	Equity	869
Booster Small Cap USA	Fixed income (medium/long term)	1,968
Bric Accionario	Debt/Equity	2,866
Capital Financiero	Fixed income (short term)	271,799
Capitalisa Accionario	Equity	6,490
Carry Trade Monedas	Fixed income (medium/long term)	3,094
Cash	Fixed income (short term)	602,146
Chile 18 Q	Equity	3,845
Chile Accionario	Equity	34,688
Cobertura	Fixed income (medium/long term)	1,423
Corporate Dollar Fund	Fixed income (short term)	365,431
Corporativo	Fixed income (short term)	294,909
Crecimiento	Fixed income (short/medium term)	21,760
Depósito XXI	Fixed income (medium/long term)	91,435
Deuda Nacional	Fixed income (medium/long term)	13,008
Disponible	Fixed income (short term)	42,185
Dollar Investment Grade	Fixed income (medium/long term)	20,992
Emerging Dollar Fund	Debt/Equity	22,152
Emerging Fund	Debt/Equity	30,105
Estrategia Commodities Garantizado	Fixed income (medium/long term)	8,513
Estratégico	Fixed income (medium/long term)	348,459
Euro Money Market Fund	Fixed income (short term)	13,189
Europe Fund	Debt/Equity	3,233
Flexible	Fixed income (short term)	100,349
Global Dollar Fund	Debt/Equity	1,784
Global Fund	Debt/Equity	4,253
Horizonte	Fixed income (medium/long term)	103,116
Inversión	Debt/Equity	26,166
Inversión 10	Debt/Equity	1,154
Inversión 20	Debt/Equity	2,497
Inversión Brasil	Debt/Equity	11,215
Inversión China	Debt/Equity	4,515
Inversión Dollar 30	Debt/Equity	2,369
Inversionista Calificado I	Equity	18,342
Latam Mid Cap	Debt/Equity	7,852
Latin America Fund	Debt/Equity	47,412
Liquidez 2000	Fixed income (short term)	460,018
Liquidez Full	Fixed income (short term)	87,334

Mid Cap	Equity		66,832
Muralla China Garantizado	Fixed income (medium/long term)		24,040
Operacional	Fixed income (medium/long term)		13,376
Oportunidades Sectoriales	Debt/Equity		10,631
Patrimonial	Fixed income (short term)		114,883
Performance	Fixed income (short/medium term)		9,335
Potencias Garantizado	Fixed income (medium/long term)		35,126
Renta Futura	Fixed income (medium/long term)		273,069
Retorno Dólar	Fixed income (medium/long term)		20,110
Retorno LP UF	Fixed income (medium/long term)		50,699
U.S. Dollar Fund	Debt/Equity		7,582
U.S. Fund	Debt/Equity		7,767
USA Accionario	Equity		17,476
Utilidades	Fixed income (short/medium term)		78,310
Viejo Continente Accionario	Equity		916
Visión Dinámica A	Debt/Equity		9,525
Visión Dinámica Acciones	Debt/Equity		4,070
Visión Dinámica B	Debt/Equity		4,745
Visión Dinámica C	Debt/Equity		7,013
Visión Dinámica D	Debt/Equity		1,964
Visión Dinámica E	Debt/Equity		5,885
Total		Ch$	4,122,061

As of December 31, 2011, Banchile Administradora General de Fondos S.A. recorded equity of Ch$62,148 million and, for the year ended December 31, 2011, net income of Ch$17,267 million, which represented 4.0% of our 2011 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, 2011, Banchile Factoring S.A. had net income of Ch$4,218 million, which represented 1.0% of our 2011 consolidated net income. As of December 31, 2011, this subsidiary had equity of Ch$45,985 million and a 21.9% 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, 2011, Banchile Asesoría Financiera S.A. had equity of Ch$3,299 million and, for the year ended December 31, 2011, net income of Ch$1,557 million, which represented 0.4% of our 2011 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, 2011, Banchile Corredores de Seguros Limitada had equity of Ch$6,701 million and, for the year ended December 31, 2011 net income of Ch$3,997 million, which represented 0.9% of our 2011 consolidated net income. According to the Chilean Insurance Companies Association, during 2010 (the latest year for which information is available), Banchile Corredores de Seguros Limitada had a 5.1% 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, 2011, Banchile Securitizadora S.A. had equity of Ch$395 million and, for the year ended December 31, 2011, it reported net income of Ch$31 million. Also as of December 31, 2011, Banchile Securitizadora S.A. had a 17% market share in the total volume of assets securitized in Chile. This market share refers to the percentage of existing stock of securitized assets.

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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, 2011, Promarket S.A. had equity of Ch$834 million and, for the year ended December 31, 2011, net income of Ch$102 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, 2011, Socofin S.A. had equity of Ch$945 million and, for the year ended December 31, 2011, net income of Ch$383 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, 2011, Banchile Trade Services Limited had equity of Ch$757 million and, for the year ended December 31, 2011, net income of Ch$65 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, 2011, we had 1,987 ATMs (that form part of Redbanc s 6,589 ATMs system which allowed our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2011, we had a network of 441 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, automobile financing 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, stop payment and 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 average, during 2011 approximately 508,000 individual and corporate customers performed nearly 20.0 million transactions per month on our website, of which approximately 4.6 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 508,000 calls per month, 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 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.

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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.

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 includes 23 privately-owned banks and one government-owned bank, Banco del Estado. As of December 31, 2011, the four largest Chilean banks accounted for 66.7% of all outstanding loans made by Chilean financial institutions: Banco de Chile (19.8%), Banco Santander-Chile (19.7%), Banco del Estado (14.3%) and Banco de Crédito e Inversiones (12.9%).

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 consider the principal commercial banks in Chile to be our primary competitors, 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, 2011, with outstanding total loans of Ch$12,587,222 million, representing a 14.3% market share, according to data published by the Superintendency of Banks.

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

In the retail market, we compete with other privately-owned Chilean banks, as well as with Banco del Estado, which has a large customer base of individuals. Among privately-owned banks, we believe our strongest competitors in this market are Banco Santander-Chile and Banco de Crédito e Inversiones, as these banks have developed 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. 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) 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

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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. 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 of only 1.5% as of December 31, 2011, according to the Superintendency of Banks, the presence of these banks is likely to make consumer banking more competitive over the next years.

Below is a set of tables and figures for the years ended December 31, 2009, 2010 and 2011 that shows our position within the Chilean financial system. The market information is set forth under Chilean GAAP as published by the Superintendency of Banks.

The following table sets forth certain statistical information on the Chilean financial system as of December 31, 2011, according to information published by the Superintendency of Banks under Chilean GAAP:

	As of December 31, 2011 (in millions of Ch$, except percentages)							
	Assets		Loans[1]		Deposits		Equity[2]	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
CHILEAN GAAP:	(in millions of Ch$, except percentages)							
Private sector banks	Ch$ 105,423,446	83.5%	Ch$ 75,359,278	85.7%	Ch$ 62,337,585	81.4%	Ch$ 8,785,548	89.5%
Banco del Estado	20,878,424	16.5	12,587,222	14.3	14,206,667	18.6	1,028,153	10.5
Total banking system	**Ch$ 126,301,870**	**100.0%**	**Ch$ 87,946,500**	**100.0%**	**Ch$ 76,544,252**	**100.0%**	**Ch$ 9,813,701**	**100.0%**

Source: Superintendency of Banks

(1) Net of interbank loans.
(2) 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$17,377,793 million as of December 31, 2011, 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:	Bank Loans[1] As of December 31,		
	2009	**2010**	**2011**
Banco de Chile	19.1%	19.2%	19.8%
Banco Santander-Chile	19.9	20.9	19.7
Banco de Crédito e Inversiones	12.8	12.7	12.9
Banco Corpbanca	7.3	7.3	7.7
BBVA Bilbao Vizcaya	7.0	7.3	7.0

Total market share	**66.1%**	**67.4%**	**67.1%**

Source: Superintendency of Banks

(1) Provisions for loan losses not deducted.

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Credit Quality

The following table sets forth the ratio of allowances to total loans of the largest private banks in Chile and that of the Chilean financial system as a whole (including such banks) as of December 31, 2009, 2010 and 2011, according to information published by the Superintendency of Banks under Chilean GAAP:

	00000000	00000000	00000000
	Allowances to Total Loans As of December 31,		
CHILEAN GAAP:	**2009**	**2010**	**2011**
Banco Santander Chile	2.55%	2.82%	3.02%
Banco de Crédito e Inversiones	2.21	2.52	2.44
Banco de Chile	2.45	2.48	2.21
BBVA Bilbao Vizcaya	1.61	1.75	2.02
Banco Corpbanca	1.91	1.95	1.54
Financial system	**2.43%**	**2.52%**	**2.36%**

Source: Superintendency of Banks

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, 2009, 2010 and 2011 on a consolidated basis, according to information published by the Superintendency of Banks under Chilean GAAP:

	00000000	00000000	00000000
	Total Past-Due Loans to Total Loans As of December 31,		
CHILEAN GAAP:	**2009**	**2010**	**2011**
Banco de Chile	1.44%	1.20%	1.03%
Banco Corpbanca	1.87%	2.04%	1.58%
BBVA Bilbao Vizcaya	2.35%	2.18%	1.90%
Banco de Crédito e Inversiones	2.07%	2.16%	2.16%
Banco Santander-Chile	2.98%	2.66%	2.95%
Financial system	**2.95%**	**2.70%**	**2.35%**

Source: Chilean Superintendency of Banks

Deposits

We had total deposits (including demand deposits and time deposits) of Ch$14,177,750 million as of December 31, 2011, 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, 2009, 2010 and 2011 on a consolidated basis, according to information published by the Superintendency of Banks under Chilean GAAP:

CHILEAN GAAP:	Total Deposits As of December 31, 2009	2010	2011
	00000000	00000000	00000000
Banco de Chile	19.0%	18.7%	18.5%
Banco Santander Chile	18.3	17.7	17.4
Banco de Crédito e Inversiones	13.5	12.8	13.0
BBVA Bilbao Vizcaya	6.6	6.4	6.5
Banco Corpbanca	6.5	6.6	7.2
Total market share	**63.9%**	**62.2%**	**62.6%**

Source: Superintendency of Banks

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Capital and Reserves

The following table sets forth the level of capital and reserves for the largest private banks in Chile as of December 31, 2009, 2010 and 2011 according to information published by the Superintendency of Banks under Chilean GAAP:

CHILEAN GAAP:	Capital and Reserves As of December 31,		
	2009	2010	2011
Banco Santander Chile	Ch$ 1,386,238	Ch$ 1,529,599	Ch$ 1,730,464
Banco de Chile	1,315,382	1,268,101	1,569,871
Banco de Crédito e Inversiones	783,611	883,714	1,039,161
Banco Corpbanca	460,980	475,839	643,218
BBVA Bilbao Vizcaya	Ch$ 432,626	Ch$ 464,814	Ch$ 490,608

Source: Superintendency of Banks

Return on Capital and Reserves

The following table sets forth our return on capital and reserves and the returns on capital and reserves of our principal private competitors and the Chilean financial system as a whole, in each case as of December 31, 2009, 2010 and 2011, according to information published by the Superintendency of Banks under Chilean GAAP:

	00000000000	00000000000	00000000000
CHILEAN GAAP:	Return on Capital and Reserves Year Ended December 31,		
	2009	2010	2011
Banco de Chile	19.6%	29.9%	27.3%
Banco Santander-Chile	31.1	31.2	25.1
Banco de Crédito e Inversiones	20.5	25.1	25.1
Banco Corpbanca	18.5	25.0	19.1
BBVA Bilbao Vizcaya	15.7	10.4	15.2
Financial system average	**16.5%**	**20.7%**	**19.3%**

Source: Superintendency of Banks

Efficiency

The following table sets forth the efficiency ratios of the largest private Chilean banks as of December 31, 2009, 2010 and 2011, according to information published by the Superintendency of Banks under Chilean GAAP:

	00000000000	00000000000	00000000000
CHILEAN GAAP:	Efficiency Ratio(1) As of December 31,		
	2009	2010	2011
Banco Santander-Chile	34.5	40.1	41.4

Banco Corpbanca	42.7	42.3	44.6
Banco de Crédito e Inversiones	47.5	50.5	47.2
Banco de Chile	48.8	50.3	50.2
BBVA Bilbao Vizcaya	53.0%	62.9%	55.7%
Financial system average	**48.3%**	**51.5%**	**50.0%**

Source: Superintendency of Banks

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

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REGULATION AND SUPERVISION

General

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

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

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

The Central Bank

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

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

The Superintendency of Banks

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

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

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

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

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

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

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

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

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

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

the depositary must disclose to the bank the identity of beneficial owners of ADSs which the depositary has registered, and the bank, in turn, must disclose to the Superintendency of Banks the identity of the beneficial owners of the ADSs representing 5% or more of such bank s shares; and bank shareholders who individually hold 10% or more of a bank s capital stock and who are controlling shareholders must periodically inform the Superintendency of Banks of their financial condition.

Limitations on Types of Activities

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

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

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

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

Deposit Insurance

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

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

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

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In addition, the Chilean Government guarantees up to 90% of the principal amount of time deposits held by individuals in the Chilean banking system. This guarantee covers obligations with a maximum value of UF 108 per person (Ch$2,407,755 or U.S.$4,632 as of December 31, 2011).

Reserve Requirements

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

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

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

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

Minimum Capital

Under the General Banking Law, a bank must have a minimum paid-in capital and reserves of UF 800,000 (Ch$17,835 million or U.S.$34.3 million as of December 31, 2011). However, a bank may begin its operations with 50% of such amount, provided that it has a Regulatory Capital ratio (defined as Regulatory Capital as a percentage of risk-weighted assets) of not less than 12%. When such a bank s paid-in capital reaches UF 600,000 (Ch$13,376 million or U.S.$25.7 million as of December 31, 2011), the Regulatory Capital ratio requirement is reduced to 10%.

Capital Adequacy Requirements

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

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

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

Market Risk Regulations

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

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

The regulation provides that the price risk of the trading book plus 8% of the risk-weighted assets (in light of our merger with Citibank Chile, the Superintendency of Banks has raised the applicable percentage for us from 8% to 10%) may not be greater than Regulatory Capital. As of December 31, 2011, the price risk of our trading book totaled Ch$36,223 million.

The following table shows our regulatory risk availability, computed as the difference between the total risk (10% of the risk-weighted assets plus the trading book risk) and our Regulatory Capital, as of December 31, 2011:

	As of December 31, 2011 (in millions of Ch$, except percentage)
(a) 10% risk-weighted assets	1,958,487
(b) Trading price risk	36,223
(c = a + b) Total risk	1,994,710
(d) Regulatory Capital	2,529,135
(e = d - c) Risk Availability	534,425
(f = c/d) Risk used as a Percentage of Regulatory Capital	78.9%

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

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

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

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

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

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

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

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Lending Limits

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

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

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

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

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

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

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

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

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

Classification of Banks

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

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Solvency and Management

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

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

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

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

Obligations Denominated in Foreign Currencies

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

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

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

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

Dissolution and Liquidation of Banks

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

Investments in Foreign Securities

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

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

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

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

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

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

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

Procedures for the Management of Information of Interest to the Market

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

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

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

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

Prevention of Money Laundering and the Financing of Terrorism

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

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

properly identifying customers, including their background, source and amount of funds, country of origin and other risk factors;

identifying what the Superintendency of Banks has defined as persons politically exposed at the international level (PEPs) both within Chile and abroad; and

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- establishing procedures to open accounts and products, with different documentation requirements needed for different types of accounts and products.

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

- AML policies and procedures aimed at preventing a bank from being used as an intermediary to carry out money laundering operations;
- appointment of a compliance officer on a senior management level who is responsible for coordinating and monitoring day-to-day AML compliance;
- establishment of an AML Committee for the purposes of planning and coordinating compliance with AML policies and procedures;
- use of software tools to detect, monitor and report unusual operations related to transactions made by customers on different products;
- implementation of personnel selection policies and a training program, in order to prevent money laundering;
- establishment of a Code of Conduct in order to, among other things, guide employee behavior and prevent possible conflicts of interest; and
- independent testing by the compliance department, which must be conducted by a bank s internal audit department.

New Consumer-Oriented Regulation

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

- any interest rate modification in credit lines offered in connection with a current account may only follow a variable rate and be based on a rate published by the Central Bank or any other entity or publisher of financial information widely recognized, previously agreed upon with the customer;
- any change to fees agreed with a customer may only be modified with the expressed or implied consent of such customer, thereby altering previous regulations regarding current accounts and credit cards;
- no interest rate or fee may be conditioned on customers obtaining or maintaining other hired services or products;
- no mortgage loan may be conditioned on the grant by the customer of a general security interest securing other financial services that the customer may have;

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

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

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

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

- new agreements entered into by banks and consumer must fully disclose the costs that the consumer assumes, as well as the periodicity, and the mechanisms to modify them. In addition, new agreements must fully disclose all terms, events of default, events of early termination, and automatic payments;
- banks must inform consumers periodically as to the complete, detailed cost of the banking product, as well as of the cost of the services rendered. The information must include the cost that the consumer will assume if he terminates the agreement before the end of its term;
- before rendering a service or delivering a product, banks must give the consumer a quote, which must include costs, rates, and conditions;
- if the consumer so wishes banks must terminate the rendering of a service;
- banks must inform guarantors as to their rights and obligations before they assume the role of guarantor;
- irrevocable mandates and mandates in blank are prohibited by the law;
- when consumers execute standard form contracts, banks must explain, in writing, the main provisions of the agreement; and
- banks may only modify fees and costs of services and banking products if the mechanisms to modify them are based on objective and verifiable factors previously agreed to in the agreement. In addition, the cost of banking services and products may not be modified without the consent of the consumer.

This amendment became effective on March 5, 2012, however, with regards to the banking product agreements entered into before said date, the amendment will not affect the substantial rights acquired by the parties in those agreements. We do not expect it to have an adverse effect on our business, financial condition and results of operations.

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ORGANIZATIONAL STRUCTURE

The following diagram presents our current corporate structure, including our subsidiaries and their respective direct ownership interests, as of December 31, 2011:

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

PROPERTY, PLANTS AND EQUIPMENT

We are domiciled in Chile and own the building located at Paseo Ahumada 251, Santiago, Chile, that is approximately 77,500 square meters and serves as the headquarters for the Bank and its subsidiaries. In addition, we own three buildings located at Huerfanos 740, Agustinas 733 and Andrés Bello 2687, Santiago, Chile where the remainder of our executive offices are located. The total area we own in these buildings is equivalent to approximately 24,600 square meters.

As of December 31, 2011, we owned the properties on which 173 of our full-service branches and other points of sale are located (approximately 116,000 square meters of office space). Also, as of December 31, 2011, we had leased office space for 261 of our full-service branches, while our remaining 7 branches and other points of sale were in a combined system of owned and leased properties. We also own properties throughout Chile for back office and administrative operations, as well as for storage of documents and other purposes. We believe that our facilities are adequate for our present needs and suitable for their intended purposes.

As of December 31, 2011, we also owned approximately 133,500 square meters in mainly recreational physical facilities in Chile, which we use to assist our employees in maintaining a healthy work and life balance and which we use for incentive and integration activities.

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SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2011 appearing elsewhere in this annual report and Item 5. Operating and Financial Review and Prospects.

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

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

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

Foreign exchange gains or losses on foreign currency-denominated assets and liabilities have not been included in interest revenue or expense. Interest is not recognized during periods in which loans are past due except for certain loans where 80% or more of our exposure under the loan is secured. However, interest received on past due loans includes interest on such loans from the original maturity date. For our impaired portfolio and high risk loans, we apply a conservative approach of discontinuing accrual-basis recognition of interest revenue in the income statement and they are only recorded once received.

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

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

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

The following tables set forth, by currency of denomination, average balances and, where applicable, interest amounts and nominal rate for our assets and liabilities under IFRS for the years ended December 31, 2009, 2010 and 2011:

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IFRS:	2009 Average balance	2009 Interest earned[(1)]	2009 Average nominal rate	2010 Average balance	2010 Interest earned[(1)]	2010 Average nominal rate	2011 Average balance	2011 Interest earned[(1)]	2011 Average nominal rate
	For the Year Ended December 31, (in millions of Ch$, except percentages)								
Assets									
Interest earning assets									
Cash and due from banks									
Ch$	Ch$ 462,300	Ch$ 17		Ch$ 559,039	Ch$ 274	0.05%	Ch$ 672,469	Ch$ 2,472	0.37%
UF									
Foreign currency	352,163	173	0.05	289,374	93	0.03	356,145	189	0.05
Total	814,463	190	0.02	848,413	367	0.04	1,028,614	2,661	0.26
Financial investments									
Ch$	816,111	28,762	3.52	608,266	19,777	3.25	630,882	32,721	5.19
UF	619,451	6,086	0.98	725,734	32,351	4.46	669,778	41,375	6.18
Foreign currency	192,708	7,408	3.84	185,808	2,609	1.40	261,591	7,673	2.93
Total	1,628,270	42,256	2.60	1,519,808	54,737	3.60	1,562,251	81,769	5.23
Loans in advance to banks									
Ch$	204,703	5,479	2.68	339,844	7,205	2.12	393,579	10,322	2.62
UF									
Foreign currency									
Total	204,703	5,479	2.68	339,844	7,205	2.12	393,579	10,322	2.62
Commercial loans									
Ch$	3,758,821	275,631	7.33	4,076,224	226,117	5.55	4,556,598	356,534	7.82
UF	3,239,648	76,109	2.35	3,231,121	218,776	6.77	3,723,781	307,310	8.25
Foreign currency	1,540,276	64,139	4.16	1,555,737	41,379	2.66	2,051,804	51,564	2.51
Total	8,538,745	415,879	4.87	8,863,082	486,272	5.49	10,332,183	715,408	6.92
Consumer loans									
Ch$	1,831,744	378,004	20.64	1,950,497	373,264	19.14	2,282,824	431,475	18.90
UF	40,354	1,627	4.03	46,903	3,685	7.86	52,090	4,503	8.64
Foreign currency									
Total	1,872,098	379,631	20.28	1,997,400	376,949	18.87	2,334,914	435,978	18,67
Residential mortgage loans									
Ch$									
UF	2,359,746	57,351	2.43	2,698,384	187,363	6.94	3,233,830	266,914	8.25
Foreign currency									
Total	2,359,746	57,351	2.43	2,698,384	187,363	6.94	3,233,830	266,914	8.25
Repurchase agreement									
Ch$	13,799	1,193	8.65	74,471	5,387	7.23	85,087	5,234	6.15

UF	28,331								
Foreign currency	625								
Total	42,755	1,193	2.79	74,471	5,387	7.23	85,087	5,234	6.15
Total interest earnings assets									
Ch$	7,087,478	689,086	9.72	7,608,341	632,024	8.31	8,621,439	838,758	9.73
UF	6,287,530	141,173	2.25	6,702,142	442,175	6.60	7,679,479	620,102	8.07
Foreign currency	2,085,772	71,720	3.44	2,030,919	44,081	2.17	2,669,540	59,426	2.23
Total	Ch$ 15,460,780	Ch$ 901,979	5.83%	Ch$ 16,341,402	Ch$ 1,118,280	6.84%	Ch$ 18,970,458	Ch$ 1,518,286	8.00%

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

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IFRS:	2009 Average balance	2009 Interest earned(1)	2009 Average nominal rate	2010 Average balance	2010 Interest earned(1)	2010 Average nominal rate	2011 Average balance	2011 Interest earned(1)	2011 Average nominal rate
	For the Year Ended December 31, (in millions of Ch$, except percentages)								
Assets									
Non-interest earning assets									
Transaction in the course of collection									
Ch$	Ch$ 234,486	Ch$		Ch$ 263,263	Ch$		Ch$ 305,521	Ch$	
UF	9								
Foreign currency	149,347			152,592			227,171		
Total	383,842			415,855			532,692		
Allowances for loan losses									
Ch$	(260,879)			(341,313)			(389,578)		
UF									
Foreign currency									
Total	(260,879)			(341,313)			(389,578)		
Derivatives									
Ch$	604,845			481,674			414,682		
UF									
Foreign currency	43,429			44,635			41,616		
Total	648,274			526,309			456,298		
Investment in other companies									
Ch$	9,024			11,057			14,074		
UF									
Foreign currency	2			2			65		
Total	9,026			11,059			14,139		
Intangible assets									
Ch$	89,144			82,151			81,524		
UF									
Foreign currency									
Total	89,144			82,151			81,524		
Fixed assets									
Ch$	210,711			207,267			207,132		
UF									
Foreign currency									
Total	210,711			207,267			207,132		
Current tax assets									
Ch$	1,185			2,520			6,173		
UF									
Foreign currency									
Total	1,185			2,520			6,173		

Deferred tax assets						
Ch$	62,627		63,935		91,397	
UF						
Foreign currency						
Total	62,627		63,935		91,397	
Other assets						
Ch$	84,941		216,432		276,392	
UF	579,991		40,135		66,255	
Foreign currency	12,650		12,502		12,048	
Total	677,582		269,069		354,695	
Total non-interest earning assets						
Ch$	1,036,084		986,986		1,007,317	
UF	580,000		40,135		66,255	
Foreign currency	205,428		209,731		280,900	
Total	1,821,512		1,236,852		1,354,472	
Total assets						
Ch$	8,123,562	689,086	8,595,327	632,024	9,628,756	838,758
UF	6,867,530	141,173	6,742,277	442,175	7,745,734	620,102
Foreign currency	2,291,200	71,720	2,240,650	44,081	2,950,440	59,426
Total	Ch$ 17,282,292	Ch$ 901,979	Ch$ 17,578,254	Ch$ 1,118,280	Ch$ 20,324,930	Ch$ 1,518,286

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

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IFRS:	2009 Average balance	2009 Interest paid	2009 Average nominal rate	2010 Average balance	2010 Interest paid	2010 Average nominal rate	2011 Average balance	2011 Interest paid	2011 Average nominal rate
	For the Year Ended December 31, (in millions of Ch$, except percentages)								
Liabilities									
Interest bearing liabilities									
Savings accounts									
Ch$	Ch$ 3,919,286	Ch$ 131,470	3.35%	Ch$ 4,172,738	Ch$ 86,691	2.08%	Ch$ 5,339,224	Ch$ 282,511	5.29%
UF	2,434,064	7,475	0.31	2,087,299	89,517	4.29	2,246,187	140,879	6.27
Foreign currency	1,214,967	20,711	1.70	1,122,089	14,441	1.29	864,820	8,512	0.98
Total	7,568,317	159,656	2.11	7,382,126	190,649	2.58	8,450,231	431,902	5.1
Repurchase agreements									
Ch$	239,295	5,535	2.31	167,032	1,640	0.98	216,102	10,846	5.02
UF	31,354	725	2.31	14,665	367	2.50	16		
Foreign currency	4,409	99	2.25	1,259	1	0.08	2,729	3	0.11
Total	275,058	6,359	2.31	182,956	2,008	1.10	218,847	10,849	4.96
Borrowings from financial institutions									
Ch$	67,314	2,479	3.68	82,313	2,138	2.60	200,026	6,072	3.04
UF	2,972	1	0.03	8,255	21	0.25	15,485	(1)	
Foreign currency	1,126,865	23		1,275,267	16,663	1.31	1,499,906	17,709	1.18
Total	1,197,151	2,503	0.21	1,365,835	18,822	1.38	1,715,417	23,780	1.39
Debt issued									
Ch$	17,885	1,264	7.07	78,957	805	1.02	54,019	1,612	2.98
UF	1,565,522	26,032	1.66	1,463,769	104,512	7.14	1,827,406	148,090	8.10
Foreign currency	130,222	4,942	3.80	117,714	4,306	3.66	113,254	4,194	3.70
Total	1,713,629	32,238	1.88	1,660,440	109,623	6.60	1,994,679	153,896	7.72
Other financial obligations									
Ch$	41,019	848	2.07	60,144	1,146	1.91	82,470	1,325	1.61
UF	12,242			29,200	1,767	6.05	29,411	2,217	7.54
Foreign currency	48,738	21,279	43.66	42,856	362	0.84	56,977	240	0.42
Total	101,999	22,127	21.69	132,200	3,275	2.48	168,858	3,782	2.24
Total interest bearing liabilities									
Ch$	4,284,799	141,596	3.30	4,561,184	92,420	2.03	5,891,841	302,366	5.31
UF	4,046,154	34,233	0.85	3,603,188	196,184	5.45	4,118,505	291,185	7.07
	2,525,201	47,054	1.86	2,559,185	35,773	1.40	2,537,686	30,658	1.21

Foreign currency									
Total	Ch$ 10,856,154	Ch$ 222,883	2.05%	Ch$ 10,723,557	Ch$ 324,377	3.03%	Ch$ 12,548,032	Ch$ 624,209	4.97%

	Year Ended December 31,								
	2009			2010			2011		
IFRS:	**Average balance**	**Interest paid**	**Average nominal rate**	**Average balance**	**Interest paid**	**Average nominal rate**	**Average balance**	**Interest paid**	**Average nominal rate**
	(in millions of Ch$, except percentages)								
Liabilities									
Non interest bearing liabilities									
Current account and demand deposit									
Ch$	Ch$ 2,665,304	Ch$		Ch$ 3,452,445	Ch$		Ch$ 3,751,441	Ch$	
UF	13,117			107,937			167,004		
Foreign currency	454,883			525,418			621,890		
Total	3,133,304			4,085,800			4,540,335		
Transaction in the course of payment									
Ch$	132,821			139,131			141,285		
UF									
Foreign currency	133,966			142,429			240,505		
Total	266,787			281,560			381,790		
Derivatives									
Ch$	610,155			434,521			401,759		
UF							80		
Foreign currency	61,940			77,072			77,111		
Total	672,095			511,593			478,950		
Current liabilities									
Ch$	15,401			14,143			3,851		
UF									
Foreign currency									
Total	15,401			14,143			3,851		
Deferred tax liabilities									
Ch$	37,291			19,052			32,262		
UF									
Foreign currency									
Total	37,291			19,052			32,262		
Provisions									
Ch$	64,697			49,109			91,622		
UF									
Foreign currency									
Total	64,697			49,109			91,622		

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IFRS:	2009 Average balance	2009 Interest paid	2009 Average nominal rate	2010 Average balance	2010 Interest paid	2010 Average nominal rate	2011 Average balance	2011 Interest paid	2011 Average nominal rate
	Year Ended December 31, (in millions of Ch$, except percentages)								
Other liabilities									
Ch$	108,883			206,557			280,892		
UF	568,572			10,247			12,916		
Foreign currency	5,367			6,223			16,320		
Total	682,822			223,027			310,128		
Equity									
Ch$	1,553,104			1,670,413			1,937,960		
UF									
Foreign currency	637								
Total	1,553,741			1,670,413			1,937,960		
Total non-interest bearing liabilities and equity									
Ch$	5,187,656			5,985,371			6,641,072		
UF	581,689			118,184			180,000		
Foreign currency	656,793			751,142			955,826		
Total	Ch$ 6,426,138			6,854,697			7,776,898		
Total liabilities and equity									
Ch$	9,472,455	141,596		10,546,555	92,420		12,532,913	302,366	
UF	4,627,843	34,233		3,721,372	196,184		4,298,505	291,185	
Foreign currency	3,181,994	47,054		3,310,327	35,773		3,493,512	30,658	
Total	Ch$ 17,282,292	Ch$ 222,883		Ch$ 17,578,254	Ch$ 324,377		Ch$ 20,324,930	Ch$ 624,209	

Interest Earning Assets and Net Interest Margin

The following table sets forth, by currency of denomination, the levels of our average interest earning assets and net interest, and illustrates the comparative margins obtained, for the years ended December 31, 2010 and 2011:

IFRS:	2009	2010	2011
	For the Year Ended December 31, (in millions of Ch$, except percentages)		
Total average interest earning assets			
Ch$	Ch$ 7,087,478	Ch$ 7,608,341	Ch$ 8,621,439
UF	6,287,530	6,702,142	7,679,479
Foreign currency	2,085,772	2,030,919	2,669,540
Total	15,460,780	16,341,402	18,970,458
Net interest earned (includes interest accrued on trading securities)(1)			
Ch$	547,490	539,604	536,392
UF	106,940	245,991	328,917

Foreign currency	24,666	8,308	28,768
Total	Ch$ 679,096	Ch$ 793,903	Ch$ 894,077
Net interest margin, nominal basis[2]			
Ch$	7.72%	7.09%	6.22%
UF	1.70	3.67	4.28
Foreign currency	1.18	0.41	1.08
Total	4.39%	4.86%	4.71%

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

Changes in Net Interest Income Volume and Rate Analysis

The following tables compare, by currency of denomination, changes in our net interest revenue between 2010 and 2011 caused by (i) changes in the average volume of interest earning assets and interest bearing liabilities and (ii) changes in their respective nominal interest rates. Volume and rate variances were calculated based on movements in average balances over the period and changes in nominal interest rate, average interest earning assets and average interest bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change in volume and the change in rate.

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IFRS:	Increase (Decrease) from 2009 to 2010 due to changes in Volume	Rate	Net change from 2009 to 2010	Increase (Decrease) from 2010 to 2011 due to changes in Volume	Rate	Net change from 2010 to 2011
	(in millions of Ch$)					
Assets						
Interest earning assets						
Cash and due from banks						
Ch$	Ch$ 4	Ch$ 253	Ch$ 257	Ch$ 67	Ch$ 2,131	Ch$ 2,198
UF						
Foreign currency	(27)	(53)	(80)	25	71	96
Total	(23)	200	177	92	2,202	2,294
Financial investments						
Ch$	(6,890)	(2,095)	(8,985)	761	12,183	12,944
UF	1,215	25,050	26,265	(2,655)	11,679	9,024
Foreign currency	(256)	(4,543)	(4,799)	1,380	3,684	5,064
Total	(5,931)	18,412	12,481	(514)	27,546	27,032
Loans in advance to banks						
Ch$	3,045	(1,319)	1,726	1,247	1,870	3,117
UF						
Foreign currency						
Total	3,045	(1,319)	1,726	1,247	1,870	3,117
Commercial loans						
Ch$	21,816	(71,330)	(49,514)	29,087	101,330	130,417
UF	(201)	142,868	142,667	36,355	52,179	88,534
Foreign currency	638	(23,398)	(22,760)	12,574	(2,389)	10,185
Total	22,253	48,140	70,393	78,016	151,120	229,136
Consumer loans						
Ch$	23,667	(28,407)	(4,740)	62,866	(4,655)	58,211
UF	301	1,757	2,058	429	389	818
Foreign currency						
Total	23,968	(26,650)	(2,682)	63,295	(4,266)	59,029
Residential mortgage loans						
Ch$						
UF	9,327	120,685	130,012	40,775	38,776	79,551
Foreign currency						
Total	9,327	120,685	130,012	40,775	38,776	79,551
Repurchase agreement						
Ch$	4,419	(225)	4,194	712	(865)	(153)
UF						
Foreign currency						
Total	4,419	(225)	4,194	712	(865)	(153)

Total interest earning assets						
Ch$	46,061	(103,123)	(57,062)	94,740	111,994	206,734
UF	10,642	290,360	301,002	74,904	103,023	177,927
Foreign currency	355	(27,994)	(27,639)	13,979	1,366	15,345
Total	Ch$ 57,058	Ch$ 159,243	Ch$ 216,301	Ch$ 183,623	Ch$ 216,383	Ch$ 400,006

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IFRS:	Increase (Decrease) from 2009 to 2010 due to changes in Volume	Rate	Net change from 2009 to 2010	Increase (Decrease) from 2010 to 2011 due to changes in Volume	Rate	Net change from 2010 to 2011
			(in millions of Ch$)			
Liabilities						
Interest bearing liabilities						
Savings accounts and time deposits						
Ch$	Ch$ 8,032	Ch$ (52,811)	Ch$ (44,779)	Ch$ 29,972	Ch$ 165,848	Ch$ 195,820
UF	(1,215)	83,257	82,042	7,260	44,102	51,362
Foreign currency	(1,491)	(4,779)	(6,270)	(2,927)	(3,002)	(5,929)
Total	5,326	25,667	30,993	34,305	206,948	241,253
Repurchase agreements						
Ch$	(1,340)	(2,555)	(3,895)	614	8,592	9,206
UF	(413)	55	(358)	(183)	(184)	(367)
Foreign currency	(42)	(56)	(98)	2		2
Total	(1,795)	(2,556)	(4,351)	433	8,408	8,841
Borrowing from financial institutions						
Ch$	482	(823)	(341)	3,519	415	3,934
UF	4	16	20	10	(31)	(21)
Foreign currency	3	16,637	16,640	2,752	(1,706)	1,046
Total	489	15,830	16,319	6,281	(1,322)	4,959
Debt issued						
Ch$	1,363	(1,822)	(459)	(323)	1,130	807
UF	(1,800)	80,280	78,480	28,235	15,342	43,577
Foreign currency	(462)	(174)	(636)	(165)	53	(112)
Total	(899)	78,284	77,385	27,747	16,525	44,272
Other financial obligation						
Ch$	369	(71)	298	379	(200)	179
UF		1,767	1,767	13	437	450
Foreign currency	(2,292)	(18,625)	(20,917)	96	(218)	(122)
Total	(1,923)	(16,929)	(18,852)	488	19	507
Total interest bearing liabilities						
Ch$	8,906	(58,082)	(49,176)	34,161	175,785	209,946
UF	(3,424)	165,375	161,951	35,335	59,666	95,001
Foreign currency	(4,284)	(6,997)	(11,281)	(242)	(4,873)	(5,115)
Total	Ch$ 1,198	Ch$ 100,296	Ch$ 101,494	Ch$ 69,254	Ch$ 230,578	Ch$ 299,832

Financial Investments

Financial assets held-for-trading:

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

IFRS:	2009	As of December 31, 2010 (in millions of Ch$)	2011	Weighted Average Nominal Rate as of December 31, 2011 %
Instruments issued by the Chilean Government and the Central Bank:				
Central Bank bonds	Ch$ 62,477	Ch$ 44,624	Ch$ 66,243	3.12%
Central Bank promissory notes	2,621	3,266	4,657	5.28
Other instruments issued by the Chilean Government and the Central Bank	96,996	109,302	6,942	4.52
Other instruments issued in Chile:				
Mortgage bonds from domestic banks	2,556	196	61	
Bonds from domestic banks	2,732	1,740	585	4.08
Deposits in domestic banks	182,995	119,002	191,003	6.07
Bonds from other Chilean companies				
Other instruments issued in Chile	1,213	1,635	370	
Instruments issued by foreign institutions:				
Instruments from foreign governments or central banks				
Other instruments issued abroad			35,051	
Total	Ch$ 351,590	Ch$ 279,765	Ch$ 304,912	2.63%

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Instruments issued by the Chilean Government and the Central Bank include instruments sold under agreements to repurchase to customers and financial institutions, amounting to Ch$15,260 million as of December 31, 2009, Ch$10,792 million as of December 31, 2010 and Ch$29,811 million as of December 31, 2011. Under Other instruments issued in Chile are included instruments sold under agreements to repurchase to customers and financial instruments, amounting to Ch$183,135 million as of December 31, 2009, Ch$56,743 million as of December 31, 2010 and Ch$152,431 million as of December 31, 2011.

Investment Portfolio:

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

Financial assets available-for-sale

IFRS:	2009	As of December 31, 2010 (in millions of Ch$)	2011	Weighted average nominal rate as of December 31, 2011 %
Instruments issued by the Chilean Government and the Central Bank:				
Bonds issued by the Chilean Government and the Central Bank	Ch$ 25,880	Ch$ 67,822	Ch$ 158,865	3.51%
Promissory notes issued by the Chilean Government and the Central Bank	285,486	212,816	58,564	0.76
Other instruments	136,923	90,849	194,965	2.88
Other instruments issued in Chile:				
Equity instruments valued at cost	2,112	2,222	2,222	
Mortgage bonds from domestic banks	79,220	70,055	87,966	4.32
Bonds from domestic banks	55,111	73,331	124,203	3.98
Deposits from domestic banks	407,432	398,789	521,881	1.24
Bonds from other Chilean companies	73,174	40,467	54,449	0.88
Other instruments		116,682	139,602	6.19
Instruments issued by Foreign Institutions:				
Instruments from foreign governments or central banks				
Other instruments issued abroad	202,436	84,072	128,403	5.51
Total	Ch$ 1,267,774	Ch$ 1,157,105	Ch$ 1,471,120	4.67%

The portfolio of financial assets available for sale included net unrealized gains of Ch$8,314 million and Ch$696 million as of December 31, 2010 and December 31, 2011, respectively, in each case recorded in other comprehensive income within equity.

Financial assets held-to-maturity

There are no securities reported under this category as of December 31, 2009, December 31, 2010 or December 31, 2011.

Maturity of Financial Investments:

The maturities of financial assets held-for-trading and financial assets available-for-sale, as of December 31, 2011 were as follows:

As of December 31, 2011

IFRS:	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years	Total
			(in millions of Ch$)		
Financial assets held-for-trading	Ch$ 304,912	Ch$	Ch$	Ch$	Ch$ 304,912
Financial assets available-for-sale	635,951	118,722	222,782	493,665	1,471,120
Total	Ch$ 940,863	Ch$ 118,722	Ch$ 222,782	Ch$ 493,665	Ch$ 1,776,032

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Loan Portfolio

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

IFRS:	2009	As of December 31, 2010 (in millions of Ch$)	2011
Commercial loans:			
Commercial loans	Ch$ 6,693,165	Ch$ 6,969,374	Ch$ 7,916,496
Foreign trade loans	786,874	913,658	1,509,147
Current account debtors	135,402	122,106	214,479
Factoring transactions	343,057	477,133	589,098
Commercial lease transactions	696,040	777,294	996,566
Other loans and accounts receivable	66,638	37,841	31,607
Subtotal	8,721,176	9,297,406	11,257,393
Mortgage loans:			
Mortgage bonds	208,971	164,474	134,377
Endorsable mortgage loans	238,875	205,260	175,258
Other residential real state mortgage loans	2,078,099	2,556,335	3,297,331
Residential lease transactions			
Other loans and accounts receivable	1,061	552	468
Subtotal	2,527,006	2,926,621	3,607,434
Consumer loans:			
Consumer loans in installments	1,346,188	1,482,056	1,763,101
Current account debtors	235,366	230,767	232,972
Credit card debtors	360,880	440,791	569,290
Consumer lease transactions			
Other loans and accounts receivable	640	354	257
Subtotal	1,943,074	2,153,968	2,565,620
Total loans	Ch$ 13,191,256	Ch$ 14,377,995	Ch$ 17,430,447

The loan categories are as follows:

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

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

Consumer Loans are all loans granted to individuals to be used for purchasing goods or services. These include different types of loans (either installments or revolving), as well as balances from credit card transactions or overdrafts on current accounts belonging to individuals. Consumer loans also include consumer lease transactions and other accounts receivable. Consumer loans do not include loans granted to finance business activities that the debtor is developing or that it may develop.

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Maturity and Interest Rate Sensitivity of Loans as of December 31, 2011

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2011:

	Balance as of December 30, 2011	Due within 1 month	Due after 1 month but within 6 months	Due after 6 months but within 12 months (in millions of Ch$)	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years
IFRS:							
Commercial loans:							
Commercial loans	Ch$ 7,916,496	Ch$ 776,046	Ch$ 1,717,338	Ch$ 826,352	Ch$ 2,128,591	Ch$ 1,112,564	Ch$ 1,355,605
Foreign trade loans	1,509,147	303,005	917,416	207,315	58,418	18,652	4,341
Current account debtors	214,479	214,479					
Factoring loans	589,098	302,438	200,482	58,235	27,515	428	
Leasing loans	996,566	30,827	130,359	138,640	381,463	155,010	160,267
Other loans	31,607	29,087	1,079	720	655	42	24
Subtotal	11,257,393	1,655,882	2,966,674	1,231,262	2,596,642	1,286,696	1,520,237
Mortgage Loans:							
Mortgage bonds	134,377	2,680	7,833	9,613	36,201	28,940	49,110
Endorsable mortgage loans	175,258	3,232	8,868	9,134	34,618	31,151	88,255
Residential mortgage loans	3,297,331	26,848	68,560	83,645	347,482	362,091	2,408,705
Other loans	468	468					
Subtotal	3,607,434	33,228	85,261	102,392	418,301	422,182	2,546,070
Consumer loans:							
Consumer loans	1,763,101	98,903	316,214	316,059	812,144	207,741	12,040
Current account debtors	232,972	232,972					
Credit card	569,290	539,853	29,437				
Other loans	257	257					
Subtotal	2,565,620	871,985	345,651	316,059	812,144	207,741	12,040
Total loans	Ch$ 17,430,447	Ch$ 2,561,095	Ch$ 3,397,586	Ch$ 1,649,713	Ch$ 3,827,087	Ch$ 1,916,619	Ch$ 4,078,347

The following table sets forth the interest rate sensitivity of our outstanding loans due after one year as of December 31, 2011:

		As of December 31, 2011 (in millions of Ch$)
IFRS:		
Variable rate		
Ch$	Ch$	681,030
UF		679,181
Foreign currency		215,145
Total		1,575,356
Fixed rate		
Ch$		2,354,676
UF		5,714,103
Foreign currency		177,918
Total		8,246,697
Total	Ch$	9,822,053

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Loans by Economic Activity

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

	As of December 31,					
	2009		2010		2011	
IFRS:	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio
	(in millions of Ch$, except percentages)					
Agriculture, Livestock, Forestry, Agribusiness, Fishing:						
Agriculture and livestock	Ch$ 296,178	2.25%	Ch$ 491,486	3.42%	578,938	3.32%
Fruit	237,689	1.80	148,225	1.03	214,334	1.23
Forestry and wood extraction	15,310	0.12	44,136	0.31	41,479	0.24
Fishing	98,969	0.75	242,873	1.69	173,016	0.99
Subtotal	648,146	4.92	926,720	6.45	1,007,767	5.78
Mining and Petroleum:						
Mining and quarries	65,703	0.50	36,316	0.25	178,425	1.02
Natural gas and crude oil extraction	108,749	0.82	68,380	0.48	238,192	1.37
Subtotal	174,452	1.32	104,696	0.73	416,617	2.39
Manufacturing:						
Tobacco, food and beverages	186,901	1.42	269,172	1.87	260,609	1.50
Textiles, clothing and leather goods	102,303	0.78	170,093	1.18	133,366	0.77
Wood and wood products	50,526	0.38	64,344	0.45	71,792	0.41
Paper, printing and publishing	45,716	0.35	45,936	0.32	53,811	0.31
Oil refining, carbon and rubber	141,845	1.08	255,728	1.78	364,064	2.09
Production of basic metal, non-mineral, machine and equipment	225,538	1.71	248,983	1.73	291,522	1.67
Other manufacturing industries	69,925	0.53	94,217	0.66	238,532	1.37
Subtotal	822,754	6.25	1,148,473	7.99	1,413,696	8.12
Electricity, Gas and Water:						
Electricity, gas and water	164,529	1.25	133,263	0.93	165,880	0.95
Subtotal	164,529	1.25	133,263	0.93	165,880	0.95
Construction:						
Residential buildings	316,047	2.40	238,863	1.67	291,856	1.67
Other constructions	728,358	5.52	693,573	4.82	866,511	4.97
Subtotal	1,044,405	7.92	932,436	6.49	1,158,367	6.64
Commerce:						
Wholesale	484,577	3.67	602,603	4.19	594,287	3.41
Retail, restaurants and hotels	760,114	5.76	912,959	6.35	797,309	4.57
Subtotal	1,244,691	9.43	1,515,562	10.54	1,391,596	7.98

Transport, Storage and Communications:						
Transport and storage	267,267	2.03	472,043	3.28	419,043	2.40
Communications	112,799	0.86	110,585	0.77	142,147	0.82
Subtotal	380,066	2.89	582,628	4.05	561,190	3.22
Financial Services:						
Financial and insurance companies	1,247,359	9.43	1,123,996	7.82	1,507,995	8.65
Holding companies and other financial services	1,192,900	9.04	1,404,777	9.77	1,615,254	9.27
Subtotal	2,440,259	18.47	2,528,773	17.59	3,123,249	17.92
Community, Social and Personal Services:						
Community, social and personal services	1,801,874	13.66	1,418,431	9.85	2,019,031	11.58
Subtotal	1,801,874	13.66	1,418,431	9.85	2,019,031	11.58
Consumer Loans	1,943,074	14.73	2,159,235	15.02	2,565,620	14.72
Residential Mortgage Loans	2,527,006	19.16	2,927,778	20.36	3,607,434	20.70
Total	13,191,256	100.00%	14,377,995	100.00%	17,430,447	100.00%

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Foreign Country Outstanding Loans

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

	As of December 31,		
IFRS:	2009	2010 (in millions of Ch$)	2011
Argentina	Ch$ 3,578	Ch$ 3,307	Ch$ 4,559
Australia			12,710
Austria			180
Belgium			6,254
Bolivia			82
Brazil	191,177	175,453	204,477
Canada	40		1,891
China	76,146	133,784	281,294
Colombia	2,218	7,967	29,299
Costa Rica		6,138	
Denmark			132
El Salvador	22	4,251	
Finland			400
France	177	7,618	191
Germany	285		1,643
Holland			15,562
Hong Kong	1,312	117	1,405
India	31,387	44	116,130
Israel			506
Italy			433
Japan	161	247	53
Mexico	14,184	36,309	87,154
New Zealand	59		
Peru	4,615	11,565	12,384
Singapore			9,238
South Korea	21,186	14,811	64,041
Spain			1,243
Switzerland			46
Sweden			3,546
Taiwan	1,019		383
United Kingdom	15,236	371	24,490
United States	226		15,138
Uruguay	534	165	
Venezuela	2,573		
Total	Ch$ 366,135	Ch$ 402,147	Ch$ 894,864

As a result of the economic and financial uncertainty observed in the Euro zone, the Bank is constantly monitoring the credit risk condition of certain European countries. In this line, as of December 31, 2011, the Bank maintains exposures of contingent credits (standby letters of credits and performance bonds) with certain European countries as follows:

As of December 31, 2011
(in millions of Ch$)

Italy		15,074
Spain		13,515
Total	Ch$	28,589

As of December 31, 2011, the Bank does not have any exposure relating to any other product such as: financial assets available-for-sale, financial assets held-for-trading, derivatives instruments, working capital, lines of credit, etc. with the countries mentioned in the table above.

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

IFRS:	As of December 31, 2009	2010	2011
		(in millions of Ch$)	
Australia	Ch$ 149	Ch$ 382	Ch$ 736
Austria	128		
Belgium	790	688	90
Canada	1,256	775	1,697
China	70	79	128
Denmark	11	59	74
Finland	296	110	99
France	543	1,162	676
Germany	11,163	6,133	3,745
Holland	1,123	1,628	301
Italy	1,067	1,638	109
Japan	7,189	4,497	5,259
Mexico	19		694
Norway	20		116
Peru			9
Russia	63		
Spain	761	1,123	69
Sweden	36	138	199
Switzerland	435		2,092
United Kingdom	2,392	1,323	36,147
United States	221,466	22,888	236,753
Total	Ch$ 248,977	Ch$ 42,623	Ch$ 288,993

Credit Review Process

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

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

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

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

Approval Process

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

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

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

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

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

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

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

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

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

Control and Follow-up

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

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

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

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

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

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

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

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

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

Analysis of Our Loan Classification

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

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IFRS: Bank s Credit Rating:	Commercial Loans	Residential Mortgage Loans	Consumer Loans	Total Loans	Percentage Loans of Classified
	As of December 31, 2009 (in millions of Ch$, except percentages)				
A1	Ch$ 32,067	Ch$	Ch$	Ch$ 32,067	0.39%
A2	2,290,427			2,290,427	27.61
A3	2,074,847			2,074,847	25.01
B	3,446,251			3,446,251	41.54
C1	136,957			136,957	1.65
C2	6,195			6,195	0.07
Impaired Portfolio	309,288			309,288	3.73
Total individual classified loans	Ch$ 8,296,032	Ch$	Ch$	Ch$ 8,296,032	100.00%
Group non-classified loans	308,200	2,458,219	1,814,595	4,581,014	
Group impaired portfolio	116,944	68,787	128,479	314,210	
Total loans	Ch$ 8,721,176	Ch$ 2,527,006	Ch$ 1,943,074	Ch$ 13,191,256	
Percentage Classified	95.13%	0.00%	0.00%	62.89%	

IFRS: Bank s Credit Rating:	Commercial Loans	Residential Mortgage Loans	Consumer Loans	Total Loans	Percentage Loans of Classified
	As of December 31, 2010(*) (in millions of Ch$, except percentages)				
A1	Ch$ 28,728	Ch$	Ch$	Ch$ 28,728	0.35%
A2	2,346,028			2,346,028	28.19
A3	2,098,218			2,098,218	25.21
B	3,380,009			3,380,009	40.61
Impaired Portfolio	469,971			469,971	5.64
Total individual classified loans	Ch$ 8,322,954	Ch$	Ch$	Ch$ 8,322,954	100.00%
Group non-classified loans	838,074	2,856,020	2,045,849	5,739,943	
Group impaired portfolio	129,954	71,758	113,386	315,098	
Total loans	Ch$ 9,290,982	Ch$ 2,927,778	Ch$ 2,159,235	Ch$ 14,377,995	
Percentage Classified	89.58%	0.00%	0.00%	57.89%	

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

IFRS: Individual Analysis Category	Commercial Loans	Residential Mortgage Loans	Consumer Loans	Total Loans	Percentage Loans of Classified
	As of December 31, 2011 (**) (in millions of Ch$, except percentages)				

Normal portfolio	Ch$ 9,456,109	Ch$	Ch$	Ch$ 9,456,109	97.72%
Substandard portfolio	56,405			56,405	0.59
Non-complying portfolio	163,859			163,859	1.69
Total individual classified loans	Ch$ 9,676,373	Ch$	Ch$	Ch$ 9,676,373	100.00%
Percentage Classified	85.96%	0.00%	0.00%	55.51%	
Group Analysis Category					
Normal portfolio	1,443,208	3,543,520	2,439,495	7,426,223	95.77%
Non-complying portfolio	137,812	63,914	126,125	327,851	4.23
Total group classified loans	Ch$ 1,581,020	3,607,434	2,565,620	7,754,074	100.00%
Total loans	Ch$ 11,257,393	Ch$ 3,607,434	Ch$ 2,565,620	Ch$ 17,430,447	
Percentage Classified	85.96%	0.00%	0.00%	55.51%	

(**) On January 1, 2011, the credit ratings for debtors with individual assessment changed, separating the portfolio in Normal (categories A1-A6), substandard (B1 B4) and Non-complying (C1-C6) as show in the above table. Note 10(a) of Financial Statements shows that the normal portfolio includes, additionally, two substandard categories (B1-B2) which amount corresponds to Ch$48,347 million.

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Classification of Loan Portfolio Based on the Borrower s

Payment Performance

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

	Domestic Loans[1] As of December 31, (in millions of Ch$)		
IFRS:	**2009**	**2010**	**2011**
Current	Ch$ 11,742,400	Ch$ 12,724,970	Ch$ 15,637,362
Total Overdue 1-29 days	721,686	945,689	1,165,108
Total Overdue 30-89 days	535,437	498,612	298,729
Total Past Due 90 days or more	190,295	172,075	178,905
Total loans	Ch$ 13,189,818	Ch$ 14,341,346	Ch$ 17,280,104

	Foreign Loans[1] As of December 31, (in millions of Ch$)		
IFRS:	**2009**	**2010**	**2011**
Current	Ch$ 1,438	Ch$ 36,649	Ch$ 150,343
Total Overdue 1-29 days			
Total Overdue 30-89 days			
Total Past Due 90 days or more			
Total loans	Ch$ 1,438	Ch$ 36,649	Ch$ 150,343

	Total Loans[1] As of December 31, (in millions of Ch, except percentages)		
IFRS:	**2009**	**2010**	**2011**
Current	Ch$ 11,743,838	Ch$ 12,761,619	Ch$ 15,787,705
Total Overdue 1-29 days	721,686	945,689	1,165,108
Total Overdue 30-89 days	535,437	498,612	298,729
Total Past Due 90 days or more	190,295	172,075	178,905
Total loans	Ch$ 13,191,256	Ch$ 14,377,995	Ch$ 17,430,447
Total Overdue loans expressed as a percentage of total loans	10.97%	11.24%	9.42%
Total Past-due loans as a percentage of total loans	1.44%	1.20%	1.03%

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

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

IFRS:	As of December 31, 2009	2010 (in millions of Ch$)	2011
Ch$	Ch$ 4,283	Ch$ 2,550	Ch$ 2,547
UF	128	128	128
Total	Ch$ 4,411	Ch$ 2,678	Ch$ 2,675

The amount of interest we would have recorded on these loans for the year ended December 31, 2011 had these loans been earning a market interest rate was Ch$113 million.

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

IFRS:	As of December 31, 2009	2010 (in millions of Ch$)	2011
Total other restructured loans	Ch$ 357,345	Ch$ 328,370	Ch$ 338,725

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During the year ended December 31, 2011, interest recorded in income on these loans amounted to Ch$51,950 million.

Analysis of Substandard Loans and Total Past Due

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

	Year ended December 31,		
	2009	2010	2011
IFRS:	(in millions of Ch$, except percentages)		
Total loans	Ch$ 13,191,256	Ch$ 14,377,995	Ch$ 17,430,447
Substandard loans(1)	766,650	785,069	499,768
Substandard loans as a percentage of total loans	5.81%	5.46%	2.87%
Total past due			
To the extent secured(2)	25,881	23,781	17,388
To the extent unsecured	164,414	148,294	161,517
Total past due	Ch$ 190,295	Ch$ 172,075	Ch$ 178,905
Total past due as a percentage of total loans	1.44%	1.20%	1.03%
To the extent secured	0.20	0.17	0.10
To the extent unsecured	1.25	1.03	0.93
Allowances for loans losses as a percentage of:			
Total loans	2.37	2.42	2.33
Total past due	164.01	202.25	227.32
Total past due unsecured	189.83%	234.69%	251.79%

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

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

Analysis of Allowances for Loan Losses

The following table analyzes our allowances for loan losses and changes in the allowances attributable to charge-offs, new allowances, allowances released and the effect of price-level restatement on allowances for loan losses:

	As of December 31,		
	2009	2010	2011
IFRS:	(in millions of Ch$, except percentages)		
Allowances for loan losses at beginning of period	Ch$ 225,108	Ch$ 312,101	Ch$ 348,027
Charge-offs	(181,793)	(149,093)	(134,010)
Allowances established	270,305	185,019	192,674
Allowances released(1)	(1,519)		
Allowances for loan losses at end of period	Ch$ 312,101	Ch$ 348,027	Ch$ 406,691
Ratio of charge-offs to average loans	1.42%	1.10%	0.84%
Allowances for loan losses at end of period as a percentage of total loans	2.37%	2.42%	2.33%

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

For allowance for loan losses associated with impaired loans and with non-impaired loans, see Note 10 (c) to our audited consolidated financial statements as of and for the year ended December 31, 2011 appearing elsewhere in this annual report.

The deterioration of the Chilean economy during the final quarter of 2008 and the first semester of 2009 negatively impacted the risk profiles of both individuals and companies. In addition, certain sectors, such as the

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Chilean salmon industry, were affected by productive difficulties during 2009, weakening its payment capacity. These factors prompted a significant 38.6% increase in our allowances for loan losses as of December 31, 2099, as compared to December 31, 2008.

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

The year ended December 31, 2011 was positive for the local economy. GDP recorded 6.0% annual growth, which resulted in improved economic figures, such as a four-year low unemployment rate (7.1%) and an increase in real salaries. These macroeconomic indicators boosted consumption and the commercial activity of companies, all of which resulted in improved risk profiles of both individuals and companies. Given the improved economic conditions, our allowances for loan losses recorded a 16.9% increase, from Ch$348,027 million in 2010 to Ch$406,691 million in 2011, which was mainly the result of a 21.2% increase recorded in our total loans.

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

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

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

	Year ended December 31,		
	2009	**2010**	**2011**
IFRS:	**(in millions of Ch$)**		
Commercial loans	Ch$ 86,030	Ch$ 46,419	Ch$ 38,136
Mortgage loans	2,088	2,376	2,923
Consumer loans	93,675	100,298	92,951
Total	Ch$ 181,793	Ch$ 149,093	Ch$ 134,010

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

	Year ended December 31,		
	2009	**2010**	**2011**
IFRS:	**(in millions of Ch$)**		
Commercial loans	Ch$ 23,934	Ch$ 11,127	Ch$ 16,014
Mortgage loans	2,653	1,387	1,106
Consumer loans	232	19,609	28,445
Subtotal	26,819	32,123	45,565
Recoveries and sales of loans reacquired from the Central Bank	60	46	90
Total	Ch$ 26,879	Ch$ 32,169	Ch$ 45,655

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

	Year ended December 31, 2009			
	Commercial Loans	Consumer Loans	Mortgage Loans	Total
IFRS:	(in millions of Ch$)			
Total Past due after 90 days but less than 6 months	Ch$ 11,056	Ch$ 33,549	Ch$ 14,152	58,757
Total Past due after 6 months within 12 months	82,117		13,850	95,967
Total Past due 12 months within 24 months	10,062		9,417	19,479
Total Past due 24 months within 36 months	10,368		3,533	13,901
Total Past due 36 months within 48 months			2,191	2,191
Total Past Due	Ch$ 113,603	Ch$ 33,549	Ch$ 43,143	190,295

	Year ended December 31, 2010			
	Commercial Loans	Consumer Loans	Mortgage Loans	Total
IFRS:	(in millions of Ch$)			
Total Past due after 90 days but less than 6 months	Ch$ 33,889	Ch$ 29,257	Ch$ 16,671	79,817
Total Past due after 6 months within 12 months	28,503		9,754	38,257
Total Past due 12 months within 24 months	33,073		8,689	41,762
Total Past due 24 months within 36 months	5,920		4,335	10,255
Total Past due 36 months within 48 months			1,984	1,984
Total Past Due	Ch$ 101,385	Ch$ 29,257	Ch$ 41,433	172,075

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

Allocation of Allowances for Loan Losses

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

	As of December 31, 2009				As of December 31, 2010			
	Allowance amount	Allowance amount as a percentage	Allowance amount as a	Loans in category as percentage	Allowance amount	Allowance amount as percentage	Allowance aamount as a percentage	Loans in category as percentage

IFRS:		of loans in category	percentage of total loans	of total loans[1]		of loans in category	of total loans	of total loans[1]
	(in millions of Ch$, except percentages)							
Commercial loans	Ch$ 189,610	2.17%	1.44%	66.11%	Ch$ 211,558	2.28%	1.47%	64.66%
Consumer loans	108,592	5.59	0.82	14.73	121,195	5.63	0.84	14.98
Residential mortgage loans	13,899	0.55	0.11	19.16	15,274	0.52	0.11	20.36
Total allocated allowances	Ch$ 312,101	2.37%	2.37%	100.00%	Ch$ 348,027	2.42%	2.42%	100.00%

	As of December 31, 2011			
IFRS:	Allowance amount	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans[1]
	(in millions of Ch$, except percentages)			
Commercial loans	Ch$ 252,199	2.24%	1.45%	64.58%
Consumer loans	138,588	5.40	0.80	14.72
Residential mortgage loans	15,904	0.44	0.09	20.70
Total allocated allowances	Ch$ 406,691	2.33%	2.33%	100.00%

(1) Based on our loan classification.

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The following table sets forth our charge-offs for 2009, 2010 and 2011 by major economic sector and provides further detail of charge-offs that have already been described in the previous discussion of allowances for loan losses:

	Year Ended December 31,		
	2009	2010	2011
IFRS:		(in millions of Ch$)	
Commercial:			
Agriculture	Ch$ 4,950	Ch$ 3,177	Ch$ 5,208
Mining	284	461	606
Manufacturing	9,900	7,956	3.807
Construction	7,766	6,159	3,330
Commerce	26,501	12,960	8,107
Transport	4,867	3,786	2,132
Financial services	11,619	6,140	9,799
Community	20,143	5,780	5,147
Subtotal:	Ch$ 86,030	Ch$ 46,419	Ch$ 38,136
Consumer loans	93,675	100,298	92,951
Mortgage loans	2,088	2,376	2,923
Total	Ch$ 181,793	Ch$ 149,093	Ch$ 134,010

Composition of Deposits and Other Commitments

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

	As of December 31,		
	2009	2010	2011
IFRS:		(in millions of Ch$)	
Current accounts	Ch$ 3,127,934	Ch$ 3,611,894	Ch$ 3,968,504
Other demand deposits	590,142	834,287	926,922
Savings accounts	158,035	173,404	177,900
Time deposits	7,264,809	7,497,073	9,081,336
Other term balance payables	4,637	27,491	23,088
Total	Ch$ 11,145,557	Ch$ 12,144,149	Ch$ 14,177,750

Maturity of Deposits

The following table sets forth under IFRS information regarding the currency and maturity of our deposits at December 31, 2011, expressed in percentages. UF-denominated deposits are similar to Chilean peso-denominated deposits in all aspects, except that the principal is readjusted periodically based on the value of the UF.

	As of December 31, 2011			
	Ch$	UF	Foreign Currency	Total

	(in millions of Ch$)			
IFRS:				
Demand deposits	4,119,500	179,584	596,342	4,895,426
Savings accounts		177,901		177,901
Time deposits:				
Maturing within three months	4,711,567	670,789	888,345	6,270,701
Maturing after three but within six months	546,539	395,991	41,219	983,749
Maturing after six but within 12 months	664,188	880,638	12,335	1,557,161
Maturing after 12 months	80,584	211,321	907	292,812
Total time deposits	6,002,878	2,158,739	942,806	9,104,423
Total deposits	10,122,378	2,516,224	1,539,148	14,177,750

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The following table sets forth information under IFRS regarding the currency and maturity of deposits in excess of U.S.$100,000 as of December 31, 2011:

	As of December 31, 2011			
	Ch$	UF	Foreign Currency	Total
	(in millions of Ch$)			
IFRS:				
Demand deposits	40.70%	7.14%	38.74%	34.53%
Savings accounts		7.07		1.25
Time deposits:				
Maturing within three months	46.55	26.66	57.72	44.23
Maturing after three but within six months	5.40	15.74	2.68	6.94
Maturing after six but within 12 months	6.56	35.00	0.80	10.98
Maturing after 12 months	0.79	8.39	0.06	2.07
Total time deposits	59.30	85.79	61.26	64.22
Total deposits	100.00%	100.00%	100.00%	100.00%

Minimum Capital Requirements

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

	As of December 31,		
	2009	2010	2011
CHILEAN GAAP:	(in millions of Ch$)		
Banco de Chile s regulatory capital	Ch$ 1,392,745	Ch$ 1,404,125	Ch$ 1,739,173
Minimum regulatory capital required	(570,054)	(638,684)	(761,362)
Excess over minimum regulatory capital required	Ch$ 822,691	Ch$ 765,441	Ch$ 977,811

Short-Term Borrowings

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

	For the year ended December 31,					
	2009		2010		2011	
IFRS:	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate
	(in millions of Ch$, except rate data)					
Payables from repurchase agreements and security lending	Ch$ 308,028	3.48%	Ch$ 81,755	2.46%	Ch$ 223,202	4.86%
Borrowings from domestic financial institutions	3,878	3.73				
Foreign borrowings	1,209,144	1.32	1,281,292	1.37	1,668,084	1.29

Other obligations	129,740		111,558		123,051	
Total short-term borrowings	Ch$ 1,650,790	1.62%	Ch$ 1,474,605	1.33%	Ch$ 2,014,337	1.61%

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

	For the year ended December 31,					
	2009		2010		2011	
IFRS:	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate
	(in millions of Ch$, except rate data)					
Payables from repurchase agreements and security lending	Ch$ 275,058	2.31%	Ch$ 182,956	1.10%	Ch$ 218,847	4.96%
Central Bank borrowings	53,548	0.85	77	1.34	69	
Borrowings from domestic financial institutions	54,446	0.09	61,109	1.98	73,590	3.06
Sub-total	Ch$ 383,052	1.79%	Ch$ 244,142	1.32%	Ch$ 292,506	4.48%
Foreign borrowings	1,090,925	0.18	1,240,088	1.42	1,600,479	1.35
Total short-term borrowings	Ch$ 1,473,977	0.60%	Ch$ 1,484,230	1.40%	Ch$ 1,892,985	1.83%

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

IFRS:	Maximum 2009 month-end balance	Maximum 2010 month-end balance	Maximum 2011 month-end balance
		(in millions of Ch$)	
Investments sold under agreements to repurchase	Ch$ 381,522	Ch$ 320,613	Ch$ 321,956
Central Bank borrowings	237,243	125,268	98,865
Borrowings from domestic financial institutions	145,697	250,215	126,055
Foreign borrowings	Ch$ 1,209,144	Ch$ 1,528,988	Ch$ 1,914,290

Item 4B. Unresolved Staff Comments

None.

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Item 5. Operating and Financial Review and Prospects

OPERATING RESULTS

Introduction

The following discussion should be read in conjunction with, and is entirely qualified by reference to, our audited consolidated financial statements as of and for the year ended December 31, 2011 appearing elsewhere in this annual report and Item 4. Information on the Company Selected Statistical Information. Certain amounts (including percentage amounts) that appear in this annual report may not total due to rounding.

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

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

Overview

We are a leading bank within the Chilean financial system, providing a broad range of financial products and services to individual and corporate customers who are primarily located in Chile. Accordingly, our financial condition, results of operations and our ability to achieve our strategic business goals could be adversely affected by changes in economic indicators (such as interest rates, inflation and GDP growth), modifications of non-economic policies of the Chilean government that can affect the private sector, or other political and economic developments in Chile, as well as regulatory changes or administrative practices of Chilean authorities. We also face a number of other risks, such as increasing competition and changing market conditions that could impact our ability to achieve our goals. See Item 4. Information on the Company Selected Statistical Information for a more detailed description of risk characteristics associated with each type of loan in our loan portfolio and Item 3. Key Information Risk Factors for a more detailed description of the specific risks that we believe to be material to our business operations.

After a period of accelerated growth between 1985 and 1997, when Chile s gross domestic product grew at an average annual rate of 7.2%, Chile s economic growth slowed to an average rate of 4.3% between 2000 and 2008. Since 2008 the Chilean economy has faced extraordinarily difficult circumstances, ranging from a general worldwide economic slowdown caused by the United States subprime mortgage crisis to the worst earthquake reported in over 50 years in Chile. Nevertheless, the country has been able to successfully overcome these challenges due to its stable financial condition resulting from an earlier accumulation of international reserves and its internationally recognized sound fiscal policy.

Throughout 2009, the local Chilean economy was negatively affected by the international financial turmoil, which reduced foreign trade and fostered high volatility in the global financial markets, mainly because the Chilean economy is highly integrated in the international trading system and dependent on the export of commodities (principally copper). As a result, Chile s mining activity shrank as demand for, and the price of, copper decreased dramatically. Other industrial sectors which rely heavily on exports, such as the cellulose and steel sectors, also suffered the negative impact caused by the global economic downturn.

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In terms of domestic demand, as a result of the uncertainty caused by the global economic downturn and the increase in the Chilean unemployment rate, private consumption significantly decreased in 2009, leading to a decrease in the demand for durable goods (mainly cars and houses), which directly affected the construction sector and indirectly affected both the forestry and transportation sectors. The consumption of non-durable goods also declined and, accordingly, the retail sector was negatively affected and reported a decrease in its commercial activity. As a result, investments (which grew by 17.9% in 2008) stagnated due to a decline in expectations of economic growth, leading companies to postpone their investment projects, which raised the unemployment rate in Chile.

All of these elements resulted in a 1.0% reduction in the Chilean GDP and an average unemployment rate of 9.7% for 2009. Also, the reduction in domestic and international consumption entailed a significant adjustment in inventory volumes and an excess of productive capacity, which resulted in a sharp decrease in prices, leading to a deflation of 1.4% as measured by the CPI as published by the Chilean National Statistics Institute for 2009. The absence of inflationary pressures encouraged the Central Bank to carry out monetary stimulus, which caused the annual interest rate to fall to a historical low of 0.5% in order to ensure sufficient liquidity in the local monetary system.

Starting in the third quarter of 2009, the Chilean economy began to show signs of recovery which temporarily faded immediately after the earthquake that struck the center-south region of Chile on February 27, 2010, negatively affecting Chile s GDP growth during the first quarter of 2010.

Nevertheless, the Chilean economy recovered from the effects of the earthquake and, in 2010, GDP growth was 6.1% mainly due to domestic consumption (which grew by 9.0%) and investments (that grew by 14.4%), as a result of a more positive business environment that led consumers to increase household spending and companies to undertake postponed investment projects. As a consequence, the inflation rate for 2010 was 3.0%, as measured by the CPI published by the Chilean National Statistics Institute. Private consumption was the main driver of GDP growth during the first half of 2010 while investment became increasingly important during the second half of 2010, as companies began to restart investment projects in response to a more positive business environment.

During 2011, the Chilean economy witnessed a GDP growth of approximately 6.0%, fostered by the high economic dynamism evidenced during the first half of 2011 as a result of the earthquake effect that represented a low basis for comparison. Conversely, during the second half of 2011, the economy suffered a slowdown mainly associated with lower activity in the mining and manufacturing sectors. On the other hand, consumer spending grew approximately 8.8%, spurred by a 4-year low in the unemployment rate of 7.1%, higher real salaries and a flexible credit market.

On the investment side, preliminary figures show a 17.6% year-over-year growth, which was fostered by expenditures in machinery and equipment, as well as the higher dynamism observed in the real estate and construction industries.

The greater demand, as well as higher food and transportation (due to international oil shortage) prices, translated into higher inflationary pressures that resulted in a CPI increase of 4.4%, which was above the upper boundary of Central Bank s long-term goal range. Accordingly, the Chilean Central Bank continued withdrawing the monetary stimulus it started in June 2010. Thus, during the first half of 2011, the Central Bank carried out four monthly increases of 50 basis points in the monetary policy interest rate, which increased from 3.25% in December 2010 to 5.25% in June 2011, which was maintained by the Central Bank until December 2011.

Nevertheless, despite the inflation recorded in 2011 and due to the global and local economic slowdown observed at the end of 2011, the Central Bank decided to lower the monetary policy rate to 5.00% on January 12, 2012 and as of April 10, 2012 it had maintained this figure throughout the year, subject to the developments in the global and local economies.

As for the stock market, during 2010, the IPSA Index (the most important Chilean stock index composed of the 40 stocks with the highest average annual trading volume on the Santiago Stock Exchange) reached 5,000 points, well above the 3,580 reported in December 31, 2009. This increase was fuelled by the recovery of stocks from companies associated with retail, commodities and banking activities, which reflected the more upbeat outlook for the domestic and global economies. Nonetheless, 2011 was a year full of uncertainty in the global and local stock exchanges. Concerns about the fiscal condition of certain European countries, as well as the slowdown in some emerging economies, such as China, led the IPSA index to lose most of the gain recorded during the previous year, closing 2011 at approximately 4,180 points. Although the uncertainty and volatility have remained in the first months of 2012, the IPSA Index has recovered and by April 23, 2012 it had reached 4,551 points approximately, recording 9.2% increase.

Future changes in the Chilean economy may impair our ability to proceed with our strategic business plan. Our financial condition and results of operations could also be adversely affected by changes in economic or other policies of the Chilean government, which has exercised and continues to exercise a substantial influence over many aspects of the private sector, or other political and economic developments in Chile, as well as regulatory changes or administrative practices of Chilean authorities, over which we have no control. See Item 3. Key Information Risk Factors Risks Relating to Chile Inflation could adversely affect the value of our ADSs and financial condition and results of operations and Item 3. Key Information Risk Factors Risks Relating to Chile Our growth and profitability depend on the level of economic activity in Chile.

Inflation

Historically, Chile has experienced high levels of inflation that have significantly affected our financial condition and results of operations. Although inflation remained relatively low during much of the past decade, price level changes were relatively high during 2008 (7.1%), primarily as a result of the sharp increase in international oil and food prices. However, throughout 2009, we experienced deflation at a rate of 1.4% as a consequence of the global financial crisis, which affected many of Chile s economic indicators, such as exports, employment, consumption and investment, thereby reducing purchasing power and leading to a weaker aggregate demand. Nevertheless, throughout 2010 and consistently with the recovery trend shown by the Chilean economy since the last quarter of 2009, inflation returned to more normal levels and was within the long-term range of 2.0% to 4.0% per year targeted by the Central Bank, ending the year at 3.0%. During the year ended December 31, 2011, inflation was 4.4%, as measured by the CPI published by the Chilean National Statistics Institute. According to the Central Bank, the increase in the inflation rate was in line with higher levels of activity in the Chilean economy prompted by an increase in private consumption and higher international food and oil prices that also impacted other sectors of the economy.

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

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

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

UF-Denominated Assets and Liabilities. The UF is revalued in monthly cycles. On each day in the period beginning the tenth day of the current month through the ninth day of the next month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect each day a pro rata amount of the prior calendar month s change in the CPI as published by the Chilean National Statistics Institute. One UF was equal to Ch$21,455.55 as of December 31, 2010 and Ch$ 22,294.03 as of December 31, 2011. The effect of any changes in the nominal peso value of our UF-denominated assets and liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest revenue and expense. Our net interest income will be positively affected by inflation (and negatively affected by deflation) to the extent that our average UF-denominated assets exceed our average UF-denominated liabilities, while our net interest income will be negatively affected by inflation (and positively affected by deflation) when average UF-denominated liabilities exceed our average UF-denominated assets. Our average UF-denominated assets exceeded our average UF-denominated liabilities by Ch$3,020,905 million (U.S.$6,449.82 million) during the year ended December 31, 2010 and Ch$3,447,229 million (U.S.$6,634.84 million) during the year ended December 31, 2011. These figures exclude capital, reserves and derivatives. See Item 4. Information on the Company Selected Statistical Information.

Peso-Denominated Assets and Liabilities. Interest rates in Chile tend to reflect the rate of inflation during the relevant period and expectations regarding future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to the inflation rate varies. See Interest Rates. We maintain a substantial amount of non-interest bearing, peso-denominated current accounts and other demand deposits. The ratio of such deposits to average interest bearing peso-denominated liabilities was 76% during the year ended December 31, 2010 and 64% during the year ended December 31, 2011. Since a large part of such deposits are not indexed to inflation, even a slight decline in the rate of inflation may adversely affect our net interest margin on assets funded with such deposits and even a slight increase in the rate of inflation may increase the net interest margin on such assets. See Item 4. Information on the Company Selected Statistical Information Interest Earning Assets and Net Interest Margin.

Interest Rates

Interest rates earned and paid on our assets and liabilities reflect in part, inflation and expectations regarding future inflation, shifts in short-term interest rates related to the Central Bank s monetary policies and movements in long-term real rates. The Central Bank manages short-term interest rates based on its objectives of balancing low inflation and economic growth. Accordingly, due to the high inflation experienced during 2008, the Central Bank increased its reference interest rate five times during that year, resulting in a final monetary policy interest rate of 8.25% at the end of 2008. On the other hand, the sharp decrease in economic activity during 2009, as well as the decrease in inflationary pressures, led the Central Bank to reduce the monetary policy interest rate to a historical low of 0.50% in order to ensure sufficient liquidity levels and to enhance aggregate demand. However, as a consequence of strong recovery signs for the economic activity and the more normalized inflationary environment, the Central Bank began to withdraw the monetary stimulus in June 2010, when it increased the monetary policy annual interest rate to 1.00% from the 0.5% maintained during the first half of that year. Since June 2010, the Central Bank has repeatedly raised the monetary policy interest rate, ending 2011 at 5.25% from the 3.25% recorded in December 2010. Nevertheless, as a consequence of the tempered global slowdown during the last quarter of 2011 and the uncertainty regarding the fiscal condition of some developed countries, the Chilean Central Bank decided to lower the reference interest rate by 0.25% on January 12, 2012. As of April 23, 2012, the Chilean reference interest rate remained steady at 5.00%.

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

According to information published by the Central Bank, the average annual short-term nominal interest rate, based on the rate paid by Chilean financial institutions for 90 to 360-day Chilean peso-denominated deposits, was 2.73% in 2010 and 5.61% in 2011. The average annual long-term nominal interest rate, based on the interest rate of the Central Bank s five-year Chilean peso-denominated bonds, was 5.54% in 2010 and 5.67% in 2011.

Foreign Currency Exchange Rates

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

Critical Accounting Policies

We prepare our audited consolidated financial statements in accordance with IFRS as issued by the IASB. The notes to our audited consolidated financial statements as of and for the year ended December 31, 2011, which are included in this annual report, contain a summary of our significant accounting policies.

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

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

Allowances for Loan Losses

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

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

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

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

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

The collective impairment allowance has two components.

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

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

For a further description of our policy regarding allowances for loan losses, see note 2(m) to our audited consolidated financial statements as of and for the year ended December 31, 2011 appearing elsewhere in this annual report.

Impairment of Other Financial Instruments

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

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

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

Fair Value Estimates for Financial Assets and Liabilities

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

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

In reaching estimates of fair value, significant management judgment may be required. The level of management judgment required to establish fair value of financial instruments for which there is a quoted price in an active market is minimal. Similarly, there is little subjectivity or judgment required for instruments valued using valuation models that are standard across the industry and where all parameter inputs are quoted in active markets. However, the level of subjectivity and, therefore, the degree of management judgment required, is more significant for those instruments valued using specialized models and those where some or all of the parameter inputs are not observable. In our fair value hierarchy, these financial instruments are classified as level 3. These instruments are valued based on quoted prices for similar instruments, which require adjustments or significant unobservable assumptions to reflect the differences between such similar instruments and the ones valued. For a further description of our internal fair value classification, see note 38 to our audited consolidated financial statements as of and for the year ended December 31, 2011 appearing elsewhere in this annual report.

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

Revenue Recognition

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

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

Deferred Tax Assets

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

Legal and Regulatory Contingencies and Tax Risks

Legal claims, regulatory proceedings and income tax provisions for uncertain tax positions may occur. The use of estimates is important in determining provisions for potential losses that may arise from such events. We estimate and provide for potential losses that may arise from litigation, regulatory proceedings and uncertain income tax positions to the extent that such losses are possible and can be estimated, in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) and IAS 12 (Income Taxes). Significant judgment is required in making these estimates and our actual liabilities may ultimately be materially different. Contingencies in respect of legal matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

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

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Results of Operations for the Year Ended December 31, 2009, 2010 and 2011

The consolidated financial information presented in this section for years ended December 31, 2009, 2010 and 2011 has been audited and prepared in accordance with IFRS. In addition, to the extent that it is available and is useful in analyzing our results, we have included information broken down by the business segments that we use for internal reporting purposes. As mentioned earlier, information about our business segments is reported under our internal reporting policies.

Net Income

The following table sets forth the principal components of our net income, as detailed in our audited consolidated financial statements for the years ended December 31, 2009, 2010 and 2011:

	For the Year Ended December 31,			% Increase (Decrease)	
IFRS:	**2009**	**2010**	**2011**	**2009/2010**	**2010/2011**
	(in millions of Ch$, except percentages)			%	
Net interest income	Ch$ 677,524	767,626	877,475	13.3%	14.3%
Net fees and commissions income	251,855	292,262	308,773	16.0	5.6
Other income (loss), net	105,010	104,509	74,863	(0.5)	(28.4)
Provisions for loan losses	(241,345)	(157,651)	(146,925)	(34.7)	(6.8)
Operating expenses	(491,749)	(544,227)	(613,611)	10.7	12.7
Income attributable to associates	840	1,609	3,054	91.5	89.8
Income before income taxes	302,135	464,128	503,629	53.6	8.5
Income taxes	(40,389)	(46,513)	(65,442)	15.2	40.7
Net income	Ch$ 261,746	417,615	438,187	59.5%	4.9%

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

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

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

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

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

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

2009 and 2010. The main factors contributing to our 59.5% annual increase in our net income were:

Higher interest income associated with a 6.2% growth in our average balances of total loans in 2010 as compared to 2009 mainly due to more dynamic economic activity and relatively low interest rates in the local market that encouraged our customers to borrow and undertake their investment projects.

Lower funding costs due to an increase of 30.4% in our average balance of current accounts and demand deposits in 2010 as compared to 2009.

An increase of approximately Ch$124,000 million in our results obtained from a proactive management of our balance sheet UF gap, amid a normalized inflationary scenario in 2010 as compared to 2009.

An increase of 16.0% in our net fees and commissions income in 2010 as compared to 2009 mainly due to higher lending and transactional activity, as well as greater volumes traded and managed by our stock brokerage and mutual funds subsidiaries, respectively.

A reduction of 34.7% in our provisions for loan losses in 2010 as compared to 2009, mainly due to an improved economic environment, accurate credit assessments of new borrowers and more efficient collection efforts.

The factors described above were partly offset by a 10.7% increase in our operating expenses in 2010 as compared to 2009, mainly due to higher commercial activity and other expenses related to the earthquake that struck Chile on February 27, 2010, the one-time impact of information technology projects implemented during the year (contingency sites and data processing center), the implementation of marketing plans intended to enhance our brand recognition and customer loyalty, and greater expenses related to special benefits to our staff for commemorating Chile s bicentennial.

Net Interest Income

The tables included under the headings Interest Revenue and Interest Expense set forth information regarding our consolidated interest revenue and expenses and average interest earning assets and average interest bearing liabilities for the years ended December 31, 2009, 2010 and 2011. This information is derived from tables included elsewhere in this annual report under Item 4. Information on the Company Selected Statistical Information and is qualified in its entirety by reference to such information.

IFRS:	**For the Year Ended December 31, 2009**	**2010**	**2011**	**% Increase (Decrease) 2009/2010**	**2010/2011**
	(in millions of Ch$, except percentages)			**%**	
Interest revenue	Ch$ 900,407	1,092,003	1,501,684	21.3%	37.5%
Interest expense	(222,883)	(324,377)	(624,209)	45.5	92.4
Net interest income	Ch$ 677,524	767,626	877,475	13.3%	14.3%
Net interest margin[(1)]	4.38%	4.70%	4.63%		

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

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

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

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

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

All of the above, in combination with greater average interest earning assets, enabled us to maintain net interest margin substantially flat amounting to 4.63% in 2011 as compared to 4.70% obtained in 2010.

2009 and 2010. The main factors contributing to our 13.3% annual increase in net interest income were:

The positive inflation effect on our UF net asset position. During 2010, the inflation rate (measured as the UF variation) increased by 2.45% as compared to deflation of 2.38% recorded in 2009. This variance, along with a proactive management of our UF net asset position, increased the contribution from that exposure for an amount of approximately Ch$124,000 million in 2010.

Higher interest income related to a 6.2% growth in our average balances of total loans in 2010 as compared to 2009 mainly due to a more dynamic economic activity and relatively low interest rates in the local market. The final effect of these higher loan volumes accounted for approximately Ch$4,500 million.

An increase of 19.6% in our year-end balances of current accounts and demand deposits in 2010 as compared to 2009, which became an important funding source for us and accounted for 26.0% of our total funding structure.

The factors described above enabled us to more than offset the effects of lower lending spreads (aligned with improved risk profiles of individuals and companies as a result of the better economic outlook) and still low nominal interest rate that translate into a lower yield of our non-interest bearing liabilities.

As a result of the factors described above, our net interest margin grew from 4.38% in 2009 to 4.70% in 2010.

Interest Revenue

The following table sets forth information regarding our interest revenue and average interest earning assets for the years ended December 31, 2009, 2010 and 2011:

	For the Year Ended December 31,			% Increase (Decrease)	
	2009	2010	2011	2009/2010	2010/2011
IFRS:	(in millions of Ch$, except percentages)			%	
Interest revenue	Ch$ 900,407	Ch$ 1,092,003	Ch$ 1,501,684	21.3%	37.5%
Average interest earning assets:					
Commercial loans	8,538,745	8,863,082	10,332,183	3.8	16.6
Residential mortgage loans	2,359,746	2,698,384	3,233,830	14.4	19.8
Consumer loans	1,872,098	1,997,400	2,334,914	6.7	16.9
Total loans	12,770,589	13,558,866	15,900,927	6.2	17.3

Cash and due from banks	814,463	848,413	1,028,614	4.2	21.2
Repurchase agreements	42,755	74,471	85,087	74.2	14.3
Financial investments	1,628,270	1,519,808	1,562,251	(6.7)	2.8
Loans and advance to banks	204,703	339,844	393,579	66.0	15.8
Total	Ch$ 15,460,780	Ch$ 16,341,402	Ch$ 18,970,458	5.7%	16.1%
Average rates earned on total interest earning assets(1):					
Average nominal rates	5.83%	6.84%	8.00%		

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

2010 and 2011. Our interest revenue recorded a significant 37.5% increase in 2011, which was principally due to: (i) higher nominal interest rates as a result of a higher reference interest rate that increased from 3.25% as of December 31, 2010 to 5.25% as of December 31, 2011 in order to maintain inflation in the target range and (ii) a 16.1% yearly growth in our average interest earning assets, mainly fostered by the significant 17.3% annual rise posted by our average balance of total loans. These two factors allowed us to maintain an upward trend in the yield of our average interest earning assets, increasing from 6.84% in 2010 to 8.00% in 2011.

2009 and 2010. The 21.3% annual increase of our interest revenue in 2010 as compared to 2009 resulted mainly from: (i) higher nominal interest rates in the local market caused by positive inflation, which resulted in a higher contribution from our interest earning UF-denominated assets (indexed to inflation), and (ii) a 5.7% increase of our average interest earning assets, mainly due to a 6.2% increase in our average balances of total loans (particularly associated with our expansion in residential mortgage loans) in 2010 as compared to 2009. These factors enabled us to increase the yield of our average interest earning assets from 5.83% in 2009 to 6.84% in 2010, in nominal terms.

Interest Expense

The following table sets forth information regarding our interest expense and average interest bearing liabilities for the years ended December 31, 2009, 2010 and 2011:

	For the Year Ended December 31,			% Increase (Decrease)	
	2009	2010	2011	2009/2010	2010/2011
IFRS:	(in millions of Ch$, except percentages)			%	
Interest expense	Ch$ 222,883	Ch$ 324,377	Ch$ 624,209	45.5%	92.4%
Average interest-bearing liabilities:					
Saving accounts and time deposits[1]	7,568,317	7,382,126	8,450,231	(2.5)	14.5
Securities under agreements to repurchase	275,058	182,956	218,847	(33.5)	19.6
Borrowings from financial institutions	1,197,151	1,365,835	1,715,417	14.1	25.6
Debt issued	1,713,629	1,660,440	1,994,679	(3.1)	20.1
Other financial obligations	101,999	132,200	168,858	29.6	27.7
Total	Ch$ 10,856,154	Ch$ 10,723,557	Ch$ 12,548,032	(1.2)%	17.0%
Average rates paid on total interest bearing liabilities[2]:					
Average nominal rates	2.05%	3.03%	4.97%		
Average (Chilean peso-denominated) non-interest bearing current account and demand deposits	3,133,304	4,085,800	4,540,335	30.4%	11.1%

(1) Includes interest-earning demand deposits.

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

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

2009 and 2010. The 45.5% increase in our interest expense in 2010 as compared to 2009 is mostly the result of 3.0% inflation in 2010 compared to 1.4% deflation in 2009 in response to more optimistic market projections about GDP growth in Chile. The higher inflation increased the cost of our interest bearing liabilities, which was partly offset by a 1.2% annual decrease in average volumes.

Net Fees and Commissions Income

The following table sets forth certain components of our fees and commissions income (net of fees paid to third parties that provide support for those services) for the years ended December 31, 2009, 2010 and 2011:

	Year Ended December 31,			% Increase (Decrease)	
IFRS:	**2009**	**2010**	**2011**	**2009/2010**	**2010/2011**
	(in millions of Ch$, except percentages)				
Mutual funds	Ch$ 45,246	Ch$ 61,476	Ch$ 63,809	35.9%	3.8%
Insurance	46,146	49,170	59,171	6.6	20.3
Current accounts, overdrafts, credit lines and credit cards	64,993	72,392	76,121	11.4	5.2
Sight accounts and ATMs	21,072	21,225	26,028	0.7	22.6
Stock brokerage	12,177	23,752	21,246	95.1	(10.6)
Collection of over-due loans	16,628	17,870	18,144	7.5	1.5
Cash management services	12,294	13,715	13,746	11.6	0.2
Letters of credit, guarantees, collateral and other contingent loans	12,599	14,290	11,885	13.4	(16.8)
Custody and trust services	4,989	4,838	5,695	(3.0)	17.7
Foreign trade and currency exchange	5,085	4,971	5,387	(2.2)	8.4
Financial advisory services	7,860	4,800	3,186	(38.9)	(33.6)
Credits and factoring	3,912	5,932	4,476	51.6	(24.5)
Collection services	1,622	1,303	1,227	(19.7)	(5.8)
Teller services expenses	(2,548)	(2,054)	(1,020)	(19.4)	(50.3)
Credit pre-evaluation services	(481)	(1,821)	(2,613)	278.6	43.5
Other	261	403	2,285	54.4	467.0
Total	Ch$ 251,855	Ch$ 292,262	Ch$ 308,773	16.0%	5.6%

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

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

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

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

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

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

2009 and 2010. The main factors contributing to our 16.0% increase in our net fees and commissions income were:

Higher commercial activity from two of our main subsidiaries which benefited from a better economic outlook for the local economy and relatively low interest rates that encouraged investors to reinvest in riskier assets, such as stocks and mutual funds during 2010. Our mutual funds subsidiary increased its average volume of assets under management by 14.3% in 2010 as compared to 2009, which translated into an increase of 35.9% (or Ch$16,230 million) in its net fees and commissions income during the same period. Similarly, the stocks trading turnover handled by our securities brokerage subsidiary rose by 26.6% in 2010 as compared to 2009 that, along with the settlement of several one-off transactions, led to an increase of 95.1% (or Ch$11,575 million) in the subsidiary s net fees and commissions income during the same period.

Higher fees and commissions from the effectiveness of our improved cross-sell strategies for core banking products, such as current accounts, overdrafts, credit lines, and credit cards. The total amount of commissions from these products reached Ch$72,392 million in 2010, which represents an increase of 11.4% (or Ch$7,399 million) as compared to the Ch$64,993 million in 2009. This is the result of specific products and marketing plans, designed and implemented by our new Credit and Debit Cards Division, intended to enhance customer loyalty and the use of our credit cards. Also, the economic rebound encouraged customers to increase their consumption and therefore the monthly amount of transactions with credit cards.

An increase of 51.6% (or Ch$2,020 million) in our net fees and commissions income from a higher demand for credits and factoring in 2010 as compared to 2009, as a result of more dynamism in the Chilean economy during 2010 as compared to 2009.

These factors were partly offset by a 38.9% (or Ch$3,060 million) decrease in fees and commissions from financial advisory activities mainly due to lower activity on debt restructuring in 2010 as compared to 2009, when our financial advisory subsidiary benefited from the higher demand amid the economic downturn.

Other Income (Loss), Net

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

The following table sets forth certain components of our other income (loss), net, for the years ended December 31, 2009, 2010 and 2011:

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IFRS:	For the Year Ended December 31, 2009	2010	2011	% Increase (Decrease) 2009/2010	2010/2011
	(in millions of Ch$, except percentages)			%	
Net financial operating income					
Interest accrued on trading securities	Ch$ 4,518	Ch$ 9,119	Ch$ 10,366	101.8%	13.7%
Gains on sales and mark to market	32,758	31,536	6,353	(3.7)	(79.9)
Gains (losses) on derivatives contracts	(175,455)	(23,342)	40,024	(86.7)	
Gains (losses) from sales of loans		(150)	1,358	(100.0)	
Total net financial operating (loss) income	(138,179)	17,163	58,101		
Foreign exchange transactions, net	220,999	63,762	(7,973)	(71.1)	
Other operating income	22,190	23,584	24,735	3.7	4.9
Total	Ch$ 105,010	Ch$ 104,509	Ch$ 74,863	(0.5)%	(28.4)%

2010 and 2011. Our other income (loss) net recorded a 28.4% decrease, from Ch$104,509 million to Ch$74,863 million. This decrease was the result of a 55.4% decline, from Ch$40,505 million to Ch$18,077 million, in the income associated with our investment portfolio, namely, income from interest accrued, sales and mark-to-market adjustments, mainly as a result of the sharp increase in interest rates in 2011 compared to 2010. In effect, due to the low interest rates in 2010 (and expectations of future increases) we sold a significant amount of fixed-income securities that translated into significant gains, which could not be repeated in 2011 due to the higher interest rates. These factors were supplemented by a decrease in gains from derivative contracts (net of foreign exchange transactions) from Ch$40,420 million in 2010 to Ch$32,051 million in 2011, mainly as a result of the decrease in the spread between local and foreign interest rates that constrained the possibility of arbitrage between local and foreign currency funding.

2009 and 2010. The slight 0.5% decrease in our other income net in 2010 as compared to 2009 is explained by lower results from the management of derivative contracts, net of foreign exchange transactions, that decreased by 11.3% from Ch$45,544 million in 2009 to Ch$40,420 million in 2010. This decrease is the result of a combination of different market factors, such as: (i) lower trading volumes during 2010 as compared to 2009 due to lower foreign exchange rate volatility and (ii) a spread compression effect during 2010 as compared to 2009. This reduction was mostly offset by higher results from our investment portfolio, whose income from interest accrued, sales and mark-to-market adjustments increased by 8.7%, from Ch$37,276 million in 2009 to Ch$40,505 million in 2010.

Provisions for Loan Losses

We recognize allowances to cover possible credit losses in accordance with IFRS as issued by the IASB. For statistical information with respect to our substandard loans and allowances for loan losses, see Item 4. Information on the Company Selected Statistical Information and Note 10(b) to our audited consolidated financial statements as of and for the year ended December 31, 2011. According to regulations applicable to such periods, the amount of provisions charged to income in any period consists of net provisions for possible loan losses.

The following table sets forth information with respect to our provisions and allowances for loan losses and charge-offs for each of the years ended December 31, 2009, 2010 and 2011:

IFRS:	For the Year Ended December 31, 2009	2010	2011	% Increase (Decrease) 2009/2010	2010/2011
	(in millions of Ch$, except percentages)			%	
Provisions:					
Net provisions for loan losses	Ch$ 241,345	Ch$ 157,651	Ch$ 146,925	(34.7)%	(6.8)%
Gross provisions for loan losses	268,224	189,820	192,580	(29.2)	1.5
Total loan loss recoveries					