BANK OF CHILE
Form 20-F
June 29, 2010
Table of Contents

As filed with the Securities and Exchange Commission on June 29, 2010

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, 2009

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: 82,551,699,423

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

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

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

U.S. GAAP ¨ IFRS x Other ¨

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

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

Table of Contents

TABLE OF CONTENTS

Table of Contents

THE MERGER

On January 1, 2008, Banco de Chile 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. These are our first annual consolidated financial statements prepared in accordance with IFRS.

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 Chilean Superintendency of Banks and Financial Institutions (Chilean GAAP), with reconciliations to U.S. GAAP. As required by IFRS 1 *First Time Adoption of International Financial Reporting Standards* the Bank s financial position and results of operations for the year ended December 31, 2008 have been restated in accordance with IFRS. Reconciliations and description of the transition to IFRS, and the effects on equity and net income are presented in Note 5 to our audited consolidated financial statements.

Unless otherwise indicated, the financial information included in this annual report with respect to 2008 and 2009 has been derived from financial statements that have been prepared in accordance with IFRS. IFRS differs in certain significant respects from Chilean GAAP. As a result, our financial information presented under IFRS is not directly comparable to our financial information presented under Chilean GAAP. Accordingly, readers should avoid such comparison.

Following our adoption of IFRS, we are no longer required to reconcile our financial statements to U.S. GAAP.

In this annual report, references to $, U.S.$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch$ are to Chilean 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 of the *Instituto Nacional de Estadísticas*, or the Chilean National Statistics Institute. As of December 31, 2009, one UF equaled U.S.$41.35 and Ch$20,942.88. See Note 2(f) to our audited consolidated financial statements. Percentages and certain dollar and peso amounts contained in this annual report have been rounded for ease of presentation.

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in preparing our audited consolidated financial statements or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Chilean pesos based on the observed exchange rate, as described in Item 3. Key Information Selected Financial Data Exchange Rates, reported by the *Banco Central de Chile*, or the Central Bank of Chile (the Central Bank), for December 30, 2009 (the latest practicable date, as December 31, 2009 was a banking holiday in Chile). The observed exchange rate on June 18, 2010 was Ch$530.36 = U.S.$1.00. The rate reported by the Central Bank is based on the rate for the prior business day in Chile and is the exchange rate specified by the Chilean Superintendency of Banks and Financial Institutions (the Chilean Superintendency of Banks) to be used by Chilean banks in the preparation of their financial statements. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Table of Contents

Unless otherwise specified, all references in this annual report to total loans are to loans to customers before deduction of allowances for loan losses, and they do not include loans to banks or contingent loans. In addition, all market share data presented in this annual report are based on information published periodically by the Chilean Superintendency of Banks, which is published under Chilean GAAP. Non-performing loans include loans as to which either principal or interest is overdue. Past-due loans include, with respect to any loan, the portion of principal or interest that is 90 or more days overdue. See Item 4. Information on the Company Selected Statistical Information Classification of Loan Portfolio Based on the Borrower s Payment Performance.

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

This annual report considers that regulatory capital (Regulatory Capital) consists of:

basic capital, which is composed of the Bank s 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:

- the Bank s subordinated bonds, considered at issue price (reduced 20.0% for each year during the period commencing six years prior to maturity), but not exceeding 50.0% of its Basic Capital; *plus*

- the Bank s 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*

- the Bank s goodwill and the unconsolidated investments in companies.

MACRO-ECONOMIC AND MARKET DATA

In this annual report, all macro-economic data relating to the Chilean economy is based on information published by the Central Bank. All market share and other data relating to the Chilean financial system are based on information published by the Chilean Superintendency of Banks.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Table of Contents

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 appearing elsewhere in this annual report. The financial information as of January 1, 2008 and for the years ended December 31, 2008 and 2009 is presented under IFRS.

Our audited consolidated financial statements have been prepared in accordance with IFRS for the years ended December 31, 2008 and 2009. In addition, our consolidated statement of financial position data as of January 1, 2008 has also been prepared in accordance with IFRS. Prior to January 1, 2008 the bank prepared its audited consolidated financial statements in accordance with Chilean GAAP. Reconciliations and description of the transition to IFRS, and the effects on equity and net income are presented in Note 5 to our audited consolidated financial statements.

	At or for the year ended December 31,		
	2008	2009	2009
	(in millions of Ch$, except share data)		(in thousands of U.S.$)
IFRS:			
CONSOLIDATED STATEMENT OF INCOME DATA			
Interest revenue	Ch$ 1,659,350	Ch$ 900,407	U.S.$ 1,777,949
Interest expense	(893,081)	(232,028)	(458,164)
Net interest income	766,269	668,379	1,319,785
Net fees and commissions income	235,189	251,216	496,052
Net financial operating income	384,836	(138,179)	(272,849)
Foreign exchange transactions, net	(353,012)	220,999	436,386
Other operating income	30,937	22,190	43,816
Provisions for loan losses	(149,374)	(241,345)	(476,561)
Total operating expenses	(556,501)	(481,965)	(951,690)
Income attributable to associates	3,564	840	1,659
Income before income taxes	361,908	302,135	596,598
Income taxes	(35,313)	(40,389)	(79,753)
Net income from continued operations, net of taxes	326,595	261,746	516,845
Net income from discontinued operations, net of taxes	38,459		
Net income for the year	365,054	261,746	516,845
Attributable to:			
Equity holders of the parent	365,052	261,744	516,841
Non-controlling interest	2	2	4
Earnings per share(1)	4.52	3.18	0.006
Dividends per share(2)	3.37	2.72	0.005
Weighted average number of shares (in millions)	80,746.98	82,185.28	

Table of Contents

	As of January 1, 2008	At or for the year ended December 31, 2008	2009	2009 (in thousands of U.S.$)
	(in millions of Ch$, except share data)			
IFRS:				
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA				
Cash and due from banks	Ch$ 331,517	Ch$ 751,223	Ch$ 727,553	U.S.$ 1,436,631
Transactions in the course of collection	542,579	807,625	526,051	1,038,744
Financial assets held-for-trading	928,634	626,864	351,590	694,252
Receivables from repurchase agreements and security borrowing	69,130	75,519	79,401	156,786
Derivative instruments	81,048	902,351	565,986	1,117,600
Loans and advances to banks	278,591	321,992	448,981	886,561
Loans to customers, net	10,424,603	13,460,464	12,879,155	25,431,264
Financial assets available-for-sale	1,062	1,073,552	1,267,774	2,503,355
Investments in other companies	7,942	11,293	10,494	20,722
Intangible assets	25,520	94,324	88,182	174,125
Property and equipment	199,403	211,379	205,847	406,467
Investment properties	16,459	18,397	17,840	35,227
Current tax assets				
Deferred tax assets, net	16,033	21,868	49,733	98,203
Assets classified as held-for-sale	413,062			
Other assets	449,798	251,487	282,872	558,561
Total assets	13,785,381	18,628,338	17,501,459	34,558,498
Current accounts and other demand deposits	2,285,357	3,007,261	3,718,076	7,341,737
Transactions in the course of payment	308,623	479,789	325,056	641,858
Payables from repurchase agreements and security lending	355,183	420,658	308,028	608,234
Saving accounts and time deposits	6,393,113	8,472,590	7,427,481	14,666,353
Derivative instruments	120,162	863,514	538,240	1,062,812
Borrowings from financial institutions	857,329	1,498,549	1,368,226	2,701,708
Debt issued	1,615,927	1,900,087	1,587,998	3,135,671
Other financial obligations	63,041	93,708	176,150	347,827
Currents tax liabilities	5,922	9,053	39,018	77,045
Deferred tax liabilities, net				
Provisions	79,090	121,215	88,607	174,964
Employee benefits	34,991	45,912	43,202	85,307
Liabilities classified as held-for-sale	385,408			
Other liabilities	228,656	210,684	280,392	553,668
Total liabilities	12,732,802	17,123,020	15,900,474	31,397,184
Total equity	Ch$ 1,052,579	Ch$ 1,505,318	Ch$ 1,600,985	U.S.$ 3,161,314

Table of Contents

	As of January 1, 2008	At or for the year ended December 31, 2008	2009
IFRS:			
CONSOLIDATED RATIOS			
Profitability and Performance			
Net interest margin(3)		5.11%	4.32%
Return on average total assets(4)		2.18	1.51
Return on average equity(5)		24.45	16.85
Capital			
Average equity as a percentage of average total assets		8.93	8.99
Bank regulatory capital as a percentage of minimum regulatory capital	183.60	192.01	234.93
Ratio of liabilities to regulatory capital(6)	15.71	15.02	11.87
Credit Quality			
Substandard loans as a percentage of total loans(7)	3.67	4.96	5.80
Allowances for loan losses as a percentage of substandard loans(7)	33.46	33.14	40.76
Allowances for loan losses as a percentage of total loans	1.23	1.64	2.37
Consolidated risk index	1.23	1.64	2.37
Operating Ratios			
Operating expenses/operating revenue		52.29	47.04
Operating expenses/average total assets		3.33	2.79

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

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

(3) 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.

(4) 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.

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

(6) Total liabilities divided by bank regulatory capital.

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

Table of Contents

Exchange Rates

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

Purchases and sales of foreign exchange that may be effected outside the Formal Exchange Market can be carried out in the *Mercado Cambiario Informal*, or the Informal Exchange Market. There are no limits imposed on the extent to which the exchange rate in the Informal Exchange Market can fluctuate above or below the observed exchange rate. On December 30, 2009 (the latest practicable date as December 31 was a banking holiday in Chile), the average exchange rate in the Informal Exchange Market was Ch$507.50 per U.S.$1.00, or 0.21% higher than the observed exchange rate of Ch$506.43 per U.S.$1.00 published 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 2005, as reported by the Central Bank:

	Daily Observed Exchange Rate Ch$ per U.S.$(1)			
Year	**Low(2)**	**High(2)**	**Average(3)**	**Period End(4)**
2005	Ch$ 509.70	Ch$ 592.75	Ch$ 559.77	Ch$ 514.21
2006	511.44	549.63	530.28	534.43
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
December	494.82	508.75	501.45	506.43
2010				
January	489.47	531.75	500.66	531.75
February	523.10	546.18	532.56	529.69
March	508.66	533.87	523.16	526.29
April	514.91	527.38	520.62	524.86
May	517.23	549.17	533.21	529.23
June(5)	530.36	548.16	536.99	530.36

Source: Central Bank.

(1) Nominal amounts.
(2) Exchange rates are the actual low and high, on a day-by-day basis for each period.
(3) The average of monthly average rates during the year.
(4) As reported by the Central Bank the first business day of the following period.
(5) Period from June 1, 2010 through June 18, 2010.

The observed exchange rate on June 18, 2010 was Ch$530.36 = U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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 45 to our audited consolidated financial statements.

Risks Relating to our Operations and the 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 experienced a significant increase, which has been primarily fueled by the increase shown by our commercial and mortgage loan portfolio, and, to a lesser extent, by the growth in our consumer loan portfolio. Expansion of our loan portfolio (especially those related to the retail market) may expose us to a higher level of loan losses and require us to establish higher levels of allowances for loan losses. For the year ended December 31, 2009, our total allowances for loan losses accounted for Ch$312,101 million, or 2.37% of our total loans, as compared to 1.64% in 2008.

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 historical rates. The Chilean banking system s loan portfolio has shown a significant increase over the last five years, which has been prompted by the banking system s efforts to increase the offer of products to its customers, as well as by the good conditions experienced by 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, increase our required allowances for loan losses. See Item 4. Information on the Company Regulation and Supervision and Item 4. Information on the Company Selected Statistical Information.

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

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

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

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 public sector bank, and with large department stores that make consumer loans to a large portion of the Chilean population, especially to low and middle-income segments. In 2002, two new private sector banks affiliated with Chile s largest department stores began their operations, mainly as consumer and medium-sized corporate niche banks. In 2003, a new niche bank oriented at servicing corporations began its operations, and in 2004, two new retail banks commenced operations. The retail market (comprising individuals and small and medium-sized companies) has become the target market of several banks, and competition with respect to these customers is continuously increasing. As a result, net interest margins (after credit risk) 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. Competition from non-banking companies like large department stores, private compensation funds and savings, as well as credit cooperatives, has become increasingly significant in the consumer lending sector. 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 has experienced rapid 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, among other things, consolidation in the industry. For example, on August 1, 2002, Banco Santiago and Banco Santander-Chile, at that time the second and third largest banks in Chile, respectively, merged to create Chile s largest bank. In 2003, Banco del Desarrollo merged with Banco Sudamericano; in 2004, Banco Security merged with Dresdner Banque Nationale de Paris; in 2005, Banco de Crédito e Inversiones merged with Banco Conosur; in 2007, Banco Itaú acquired Bank Boston unit in Chile, while Rabobank acquired HNS Bank and Scotiabank acquired Banco del Desarrollo; in 2008, we merged with Citibank Chile and The Royal Bank of Scotland acquired ABN Amro Bank; and in 2009, Banco Monex was acquired by Consorcio Group. We expect trends of increased competition and consolidation to continue, resulting in the creation of new large financial groups. Consolidation, which can result in the creation of larger and stronger banks, may adversely affect our financial condition and results of operations by decreasing the net interest margins we are able to generate.

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

Although we historically focused on banking for the wholesale market and high-income individuals, an increasing proportion of our retail market consists of small and medium-sized companies (approximately 6.2% of the value of our total loan portfolio as of December 31, 2009, including companies with annual sales of up to Ch$1,400 million) and, to a lesser extent, of lower-income individuals (approximately 4.5% of our total loan portfolio at December 31, 2009, including individuals with monthly incomes between Ch$170,000 and Ch$400,000). Our strategy includes increasing lending and providing 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 past-due loans, which could result in higher allowances for loan losses. The levels of past-due loans and subsequent write-offs may be materially higher in the future. See Item 4. Information on the Company Business Overview Principal Business Activities.

Table of Contents

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, 2009, Sociedad Administradora de la Obligacion Subordinada S.A., or SAOS, our affiliate, holds 34.64% of our shares as a consequence of our 1996 reorganization. This reorganization was due in part to our 1989 repurchase from the Central Bank of certain non-performing loans that we had previously sold to the Central Bank and later exchanged for subordinated debt without a fixed term. Under the terms of a repayment obligation in favor of the Central Bank that SAOS assumed to replace the Central Bank subordinated debt, SAOS may be required to sell some of our shares to the public. See Item 4. Information on the Company History and Development of the Bank History The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile S.A.(SM-Chile), a holding company that controls us and SAOS, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. As a result of the capital increase agreed upon in the Extraordinary Shareholders Meeting held in May 2007, the share dividend paid in May 2006, May 2007 and June 2009, and the merger with Citibank Chile in January 2008, the percentage of our shares held by SAOS further decreased to 34.64%. 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 an amount equal to 20% of our capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire accumulated deficit amount. As of April 30, 2010, SAOS maintained a surplus with the Central Bank of Ch$126,321 million, equivalent to 9.67% of our paid-in capital and reserves. As of the same date, Ch$261,302 million would have represented 20% of our capital and reserves under Chilean GAAP as required by the Chilean Superintendency of Banks. If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth, and to distribute stock dividends among our shareholders, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. The shareholders of SM-Chile will have a right of first refusal with respect to that sale.

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

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 65% of our operating revenue in 2009. Changes in inflation and in 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 many 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 our financial condition or results of operations. The average inflation rate was 4.39% in 2007 and 8.71% in 2008 and the average deflation rate was 1.48% in 2009. The average annual short-term nominal interest rate (based on the rate paid by Chilean financial institutions) for 90 to 360 day deposits was 3.98% in 2007, 5.38% in 2008 and 2.19% in 2009. The average long-term nominal interest rate based on the interest rate of the Central Bank s five-year bonds was 5.85% in 2007, 6.89% in 2008 and 4.55% in 2009. 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 and errors by employees. 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 our business, financial condition and results of operations.

Request from Spanish Court to Chilean Judicial Authorities

On October 26, 2009, 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), issued a letter rogatory to the Chilean judicial authorities notifying them 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 (President of Banco de Chile), Mr. Hernán Donoso Lira (former Manager of the New York Branch of Banco de Chile) and against Banco de Chile, Banchile Corredores de Bolsa S.A. and Banchile Administradora General de Fondos S.A., the latter three of which bear subsidiary civil liability. The letter rogatory, among other procedures, also required a joint guarantee (*fianza solidaria*) from those charged in the amount of US $77,348,374 and allowed for the attachment of assets for up to US$103,131,165, should the criminal defendants or the subsidiaries bearing civil liability not grant the mentioned joint guarantee.

On April 29, 2010, the Supreme Court of Chile did not grant the requests contained in the letter rogatory given that the subject matter of the investigation by the Spanish Court is currently pending before a Chilean tribunal that has jurisdiction and competence over these matters. This judicial investigation is currently underway in Chile and at the time of filing of this annual report no grounded presumptions of criminal participation of people affiliated with Banco de Chile have been established.

It is not possible to predict the outcome of these proceedings, or what impact, if any, they might have on the Bank.

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 June 15, 2010, LQ Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco S.A., and Citigroup Chile S.A. beneficially owned approximately 61.7% of our outstanding voting rights. These principal shareholders are in a position to elect a majority of the members of our Board of Directors, direct our management and control substantially all matters that are to be decided by a vote of the shareholders, including fundamental corporate transactions.

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

Table of Contents

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

While our ADSs have been listed on the New York Stock Exchange, or NYSE, since the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will be sustained. During 2009, a daily average of 11,521 American Depositary Receipts, or ADRs, were traded on the NYSE. Although our shares are traded on the Santiago Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange, the market for our shares in Chile is small and illiquid. At December 31, 2009, approximately 12.10% of our outstanding shares were held by shareholders other than our principal shareholders, including SM-Chile and SAOS.

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

You may be unable to exercise preemptive rights.

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

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

Developments in 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 other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors reactions to developments in one country can affect the securities markets 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 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, and our subsidiaries, 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 and at the beginning of 2009. We cannot assure you that any future developments in international markets could not affect our results of operations and consequently the market price of our ADSs and shares.

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. 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.

A substantial number of the transactions in which we participate are with customers doing business in Chile. Accordingly, our ability to increase business volume and our results of operations and enhance our financial condition, in general, is dependent to a significant extent on the level of economic activity in Chile. The global financial crisis, which affected the Chilean economy during 2009, also impacted the domestic financial system, due to the deteriorated credit quality of the financial system s loan portfolio. We cannot assure you that the Chilean economy will continue to grow in the future or that future developments in, or affecting, the Chilean economy will not materially and adversely affect our business, financial condition or results of operations.

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 with this trend in the future. In the period from December 31, 2008 to December 31, 2009, the value of the U.S. dollar relative to the Chilean peso decreased by approximately 19.5%, as compared to the 26.9% increase in value in the period from December 31, 2007 to December 31, 2008.

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

Table of Contents

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, 2009, our foreign currency denominated liabilities and Chilean peso denominated liabilities, which contain repayment terms linked to changes in foreign currency exchange rates, exceeded our foreign currency denominated assets and Chilean peso-denominated assets, which contain repayment terms linked to changes in foreign currency exchange rates, by Ch$2,373 million, or 0.2% 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 peso, and any such devaluation may impair our capacity to service foreign-currency obligations and may, therefore, materially and adversely affect our financial condition and results of operations. Notwithstanding the existence of general policies and regulations that limit material exchange rate mismatches, the economic policies of the Chilean Government and any future fluctuations of the 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.

The level of inflation generally has moderated in recent years, especially in comparison to the periods of higher inflation in the 1980s and 1990s. High levels of inflation in Chile could adversely affect the Chilean economy and, indirectly, both our results of operations and the value of our ADSs. The annual rate of inflation (as measured by changes in the Consumer Price Index and as reported by the Chilean National Institute of Statistics) during the last five years ended December 31, 2009 and the first five months of 2010 was:

Year	**Inflation (Consumer Price Index)**
2005	3.7%
2006	2.6
2007	7.8
2008	7.1
2009	(1.4)
2010 (through May 31)	1.7%

Source: Chilean National Institute of Statistics

Although we benefit from a positive inflation rate in Chile due to the structure of our assets and liabilities (we have a significant net asset position indexed to the inflation rate), our operating results and the value of our ADSs in the future may be adversely affected by changing levels of inflation, and Chilean inflation could change significantly from the current level. 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.

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

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.

Table of Contents

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

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

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

Table of Contents

Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE BANK

Overview

We were founded in 1893, and we have been, for much of our recent history, among the largest and most profitable Chilean banks in terms of return on assets and equity. We are engaged primarily in commercial banking in Chile, providing traditional banking services to a diverse customer base that includes corporations and individuals.

Our legal name is Banco de Chile. We are organized as a banking corporation under the laws of Chile and were licensed by the Chilean Superintendency of Banks to operate as a commercial bank on September 17, 1996. Our principal 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.

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

- wholesale market;
- retail market;
- treasury and money market operations; and
- operations through subsidiaries.

Our banking services for corporate customers include commercial loans (which, in turn, include working capital credits and trade finance), foreign exchange, capital market 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. We provide our individual customers with credit cards, residential mortgage loans, consumer loans and automobile financing loans, as well as traditional deposit services, such as current and savings accounts and time deposits.

As of December 31, 2009, we offered international banking services through our trade services subsidiary in Hong Kong, our representative offices in Sao Paulo and Beijing and a worldwide network of correspondent banks. In addition to our traditional banking operations, through our subsidiaries and affiliates we offer a variety of non-banking financial services including securities brokerage, mutual fund management, investment banking services, factoring, insurance brokerage, securitization, collection and sales services. We offer a powerful value proposition to our customers, which has positioned us among the most recognized financial players in Chile and Latin America.

As of December 31, 2009, we had:

- total assets of Ch$17,501,459 million (U.S.$34,558 million);
- total loans of Ch$13,191,256 million (U.S.$26,048 million);
- deposits of Ch$11,145,557 million (U.S.$22,008 million); and

equity (including net income, non-controlling interest and provisions for minimum dividends) of Ch$1,600,985 million (U.S.$3,161 million).

16

According to information published by the Chilean Superintendency of Banks, as of December 31, 2009, we were the second largest private bank in Chile in terms of total loans with a market share of 19.1%.

We are headquartered in Santiago, Chile, and, as of December 31, 2009, had 14,021 employees and delivered financial products and services through a nationwide network of 400 branches and 1,588 ATMs that form part of a network of 5,526 ATMs operated by Redbanc S.A., a company owned by us and 12 other private sector financial institutions.

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. Until the creation of the Central Bank in 1926 and before the enactment of the Chilean General Banking Law, we were the main stabilization agent of the Chilean banking system, a role that is now carried out by the 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 in Chile. Throughout this era, we remained privately owned, with the exception of a portion of our shares owned by the Chilean Government that were sold to private investors in 1975. We developed a well-recognized name in Chile and expanded our operations in foreign markets, where we developed an extensive network of correspondent banks. In the early twentieth century, we established a representative office in London, which we maintained until 1985, when our European operations were moved to Frankfurt. The Frankfurt office was closed in 2000, when our foreign operations were centralized at the New York branch. In 1987 and 1988, we established four subsidiaries to provide the full range of financial products and services permitted by the Chilean General Banking Law, and in 1999, we established our insurance brokerage and factoring subsidiaries. According to our estimations, we remained the largest private bank in Chile until 1996. During the early 2000s, the Chilean banking industry was marked by intense M&A 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 network of three brands, consisting of Banco de Chile (which is present in the whole of Chile), Banco Edwards-Citi (which primarily operates in Santiago) and Banco CrediChile (which is focused on consumer loans and debit accounts). In 2009, we were recognized by ICARE (Chilean Institute of Enterprise Rational Management), as The Enterprise of 2008 in recognition of our role in the Chilean economy and banking system.

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, or Latibex, and the London Stock Exchange, or LSE. We concluded the merger process at the end of 2002 with the consolidation of a new corporate structure and the integration of our technological platforms.

Merger with Citibank Chile

On December 27, 2007, our shareholders approved our merger with Citibank Chile, which became effective on January 1, 2008. In addition, we entered into a Global Connectivity Agreement with Citigroup Inc. (Citigroup) to offer joint global financial services to customers in Chile. 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 Citibank Chile s consumer business with ours.

Table of Contents

Technological Projects

During 2005, we successfully concluded the implementation of the Enterprise Resource Planning system, which, in its orientation towards self-service applications, provides human resources solutions. We also deployed a Customer Relationship Management, or CRM, service platform in all of our retail branches and call centers. The CRM system mainly allows for preventive functions, the management of commercial campaigns and the tracking of credit approvals. In addition, a new accounting system was deployed.

During 2006, we expanded the CRM system and its related processes to our corporate and private banking businesses, thus covering all of our segments and branch networks, with the exception of Credichile. We also introduced important improvements in this system, adding functionalities mainly related to the opportunity and post-sale modules. As part of the new core banking system, commercial and consumer loans were placed into the new loan module. In addition, we initiated the replacement of the teller system to enable faster and more accurate customer service. Also during 2006, a customer intelligence solution was implemented to improve customer acquisition, cross-selling, segmentation and retention.

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 the new core banking system. In addition, the CRM system and the teller solution were expanded to all of our networks. In addition, we implemented a new anti-money laundering program that increases the quality and efficiency of 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, which has allowed us to reach higher levels of operational stability. We implemented new servers for current accounts and credit cards, enabling us to reach a significant reduction in 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 the Bank 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.

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 our company. In 1987, the Chilean Superintendency of Banks returned the control and administration of the Bank to our shareholders.

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

The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch$1,300,122 million, or U.S.$ 2,567 million, required that a certain percentage of our income before provisions for the subordinated debt be applied to repay this obligation. The Central Bank subordinated debt did not have a fixed maturity, and payments were made only to the extent that we earned income before provisions for the subordinated debt. In 1993 we applied 72.9% of our income before provisions for the Central Bank subordinated debt to the repayment of this debt. In 1994 we applied 67.6%, and in 1995 we applied 65.8% of our income before provisions for the Central Bank subordinated debt to the repayment of this debt.

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

This Central Bank indebtedness, for which SAOS is solely responsible and for which there is no recourse to us or SM-Chile, was equal to the unpaid principal of the Central Bank subordinated debt that it replaced but had terms that differed in some 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 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, a holding company that beneficially owns SAOS and us, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. As a result of the capital increase agreed upon in the Extraordinary Shareholders Meeting held in May 2007, the share dividend paid in May 2006, May 2007 and June 2009, and the merger with Citibank Chile in January 2008, the percentage of our shares held by SAOS further decreased to 34.64%. 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 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 owned by SAOS to pay the entire accumulated deficit amount. As of April 30, 2010, SAOS maintained surplus with the Central Bank of Ch$126,321 million, equivalent to 9.67% of our paid-in capital and reserves. As of the same date, Ch$261,302 million would have represented 20% 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, 2009 the outstanding subordinated debt balance held by SAOS amounted to Ch$914,374 million. SAOS paid to the Central Bank a total of Ch$98,224 during 2008 and Ch$97,973 million during 2009, exceeding in both years the required minimum annual payment.

As of December 31, 2009, the major shareholder of SM-Chile was LQ Inversiones Financieras S.A. (a subsidiary of Quiñenco S.A.), which owned, directly and indirectly, 58.23% of SM-Chile s total shares. As of the same date, major shareholders of Banco de Chile were SAOS, LQ Inversiones Financieras S.A. and SM-Chile, each having a participation of 34.64%, 32.70% and 14.70% of Banco de Chile s total shares, respectively.

Table of Contents

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

Capital Expenditures

The following table sets forth our capital expenditures in each of the two years ended December 31, 2008 and 2009:

	For the Year Ended December 31, 2008	2009
	(in millions of Ch$)	
Computer equipment	Ch$ 5,440	Ch$ 7,161
Furniture, machinery and installations	9,520	4,540
Real estate	1,138	3,245
Vehicles	467	379
Subtotal	16,565	15,325
Software	8,261	7,529
Total	Ch$ 24,826	Ch$ 22,854

Our budget for capital expenditures in 2010 is Ch$39,883 million, 55% of which is allocated to information technology expenditures and 45% is related to infrastructure. This level of capital expenditures is in line with our strategic aim of improving our efficiency and productivity.

Regarding the budgeted information technology expenditures, 75% of such are related to (i) improvements to our main infrastructure, (ii) final stages of projects in development, such as mobile banking and internet-based selling and (iii) renewal of some internet-based customer services.

Our 2010 budget for infrastructure expenditures considers that disbursements in this area will be mainly related to (i) renovation and relocation of some of our existing branches, (ii) the opening of new branches and customer service centers and (iii) other projects associated with the acquisition of new properties and other real estate developments.

BUSINESS OVERVIEW

Business Strategy

Our long-term strategy is to maintain and enhance our position as a leading bank in Chile by providing a broad range of financial products and services to corporations and individuals nationwide. As part of this strategy, we utilize a multi-brand approach to target diverse market segments and leverage our strongly positioned brand names: Banco de Chile, Banco Edwards Citi, Banchile and Banco Credichile. Our long-term strateg consists of the key components described below.

Profitable Business Growth

Our business model is focused on those business choices that make significant economic and social contributions, have bounded risks and allow us to strengthen our long-term relationships with customers. We seek sustained growth, especially in higher-margin segments and in those business areas that show strong growth potential. Our focus has been primarily on retail segments, large corporations and the treasury segment. We seek to achieve the same strong position in these areas that we already have in the corporate segment.

In addition to our traditional lending activities, we have developed other sources of revenue, such as foreign exchange derivative transactions and fee-based products and services. In this regard, our consolidated income from fees and other services has become an important source of earnings in recent years, reaching Ch$235,189 million (U.S.$373.84 million or 21.3% of our total operating revenues) in 2008 and Ch$251,216 million (U.S.$496.05 million or 24.5% of our total operating revenues) in 2009. We seek to continue increasing our revenues from fees and commissions by developing new products and services and by reinforcing the cross-selling of these products and services in the retail and wholesale segments that we currently serve. For our wholesale banking customers, we are continuously developing new products and improving existing fee-based services, such as receivables collection, payroll services, supplier payments, investment advisory services and cash management. To our retail banking customers, we offer new and existing fee-based services, such as general checking services, ATMs, credit cards, mutual funds, securities brokerage and insurance brokerage, all of which are continuously evaluated in order to ensure customer satisfaction. In order to improve the value proposition to our retail banking customers, we launched two new commercial products during 2009, RedGiro and Cuenta Móvil, which primarily handle electronic and mobile money transfers, respectively.

Efficiency Improvement

Our efficiency approach is focused on achieving high levels of productivity and cost control. We believe that a low-cost structure will become increasingly important in order to compete profitably. To achieve this goal, we have invested in (1) technology development, (2) the development of simpler and more manageable business processes and (3) secure and modern platforms that allow better response time and higher productivity.

In recent years, we have invested heavily in technology (approximately Ch$28,400 million, or U.S.$56.0 million, in the last two years) and we plan to continue focusing on technology in the future due to our belief that this is one of the best means to continuously improve customer service and operating efficiency.

During 2009, our consolidated operating expenses represented 47.0% of our operating revenues, as compared to 52.3% in 2008. We intend to improve this efficiency ratio in the coming years by expanding the volume of our business, enhancing our internal processes and reinforcing our cost controls and monitoring.

High Standards of Service Quality

Given the significant role of our customers, we continuously seek to increase customer loyalty. Accordingly, we have developed and implemented different measures in order to obtain improvements in service quality, such as (1) the identification of new customer segments and sub-segments in the retail and wholesale markets, (2) the subsequent implementation of new value propositions with an emphasis on service excellence that include new service models, (3) the enhancement of our service quality through an ongoing plan that identifies the critical behaviors of our customers, developing a service protocol for different kinds of clients, (4) the transfer of successful business operation procedures from high-service quality branches to lower-service quality branches, (5) the reinforcement of our Internet channel and business units in order to increase the processing capacity of information, allowing us to manage larger volumes of business with improved response time to customers, (6) the development of a more effective call center platform and (7) the redistribution of our corporate portfolios among corporate executives, allowing us to increase specialization and to improve the quality of our service.

Excellence in Human Resources Management

In order to ensure our long-term profitability, efficiency and service quality in an increasingly competitive industry, we believe that it is necessary to have highly-qualified and motivated personnel. In this regard, we make necessary efforts to remain as one of the most respected companies at the occupational level by developing a team of excellence that is committed to our corporate goals and values.

Table of Contents

We seek to establish a distinctive culture among our employees by promoting (1) a clear focus on the customer, (2) confidence and leadership, (3) meritocracy and high performance, (4) collaboration and teamwork, (5) accountability and empowerment and (6) innovation and continuous improvement.

Since the performance of our business depends on many factors, we cannot assure you that we will be able to achieve our strategic goals. For a discussion of certain risks applicable to our operations and the country that may affect our ability to meet our objectives, see Item 3. Key Information Risk Factors.

Ownership Structure

The following diagram shows the ownership structure as of June 15, 2010:

Table of Contents

Principal Business Activities

We are a full-service financial institution that provides, directly and indirectly through our subsidiaries and affiliates, a wide variety of credit and non-credit products and services to all segments of the Chilean financial market, as shown in the following chart:

The information relating to our business segments, which is 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, 2008 and 2009 Business Segments and Item 5. Operating and Financial Review and Prospects Results of Operations for the Years Ended December 31, 2008 and 2009 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, 2009, allocated among our principal business segments:

	Loans		Consolidated net income (1) (2) (3)
	(in millions of Ch$, except percentages)		
BANK S INTERNAL REPORTING POLICIES:			
Retail market	Ch$ 6,027,158	45.7%	Ch$ 83,624
Wholesale market	6,874,957	52.1%	54,505
Treasury and money market operations		0.0%	106,937
Operations through subsidiaries	282,438	2.1%	52,418
Other (adjustments and eliminations)			
Total	Ch$ 13,184,553	100.0%	Ch$ 297,484

(1) The net income breakdown shown is used for internal reporting and planning purposes and 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) The results associated with our gap management (interest rate mismatches) have been allocated in the treasury and money market operations segment.
(3) Consolidated net income consists of net income by business segment before tax expenses.

Table of Contents

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

	For the Year Ended December 31, 2008	2009
	(in millions of Ch$)	
BANK S INTERNAL REPORTING POLICIES:		
Retail market	Ch$ 561,572	Ch$ 540,288
Wholesale market	305,835	229,125
Treasury and money market operations	88,314	128,207
Operations through subsidiaries	117,881	131,096
Other (adjustments and eliminations)	38,580	
Total Operating Revenues	Ch$ 1,112,182	Ch$ 1,028,716

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, 2008	2009
	(in millions of Ch$)	
BANK S INTERNAL REPORTING POLICIES:		
Chile	Ch$ 1,112,024	Ch$ 1,028,645
Banking operations	954,496	897,684
Operations through subsidiaries	157,528	130,961
Foreign operations	158	71
New York		
Miami		
Operations through subsidiaries	158	71
Total Operating Revenues	Ch$ 1,112,182	Ch$ 1,028,716

Retail Market

Our retail market business segment serves the financial needs of individuals and small and medium-sized companies through our branch network consisting of 400 offices and customer service centers, which are made up of 246 branches belonging to Banco de Chile and Banco Edwards Citi networks and 154 branches within the Banco CrediChile network.

As of December 31, 2009, loans to our retail market customers represented 45.7% of our total loans and our retail market business segment accounted for Ch$83,624 million of our net income before tax for the year ended December 31, 2009.

In terms of composition, as set forth in the following table prepared in accordance with our internal reporting policies, our retail market business segment s loan portfolio as of December 31, 2009 was principally focused on residential mortgage loans, which represented a 41.8% of the segment s portfolio. The remaining loans were distributed between consumer credits (31.9%) and commercial credits (26.3%).

	As of December 31, 2009 (in millions of Ch$, except percentages)

BANK S INTERNAL REPORTING POLICIES:		
Commercial loans	Ch$ 1,585,609	26.3%
Residential mortgage loans	2,518,305	41.8
Consumer loans	1,923,244	31.9
Total	Ch$ 6,027,158	100.0%

24

Table of Contents

We serve the retail market business segment through two different and specialized divisions: (i) the Commercial division and (ii) the Consumer Division (Banco CrediChile).

Commercial Division

The commercial division 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 Ch$1,400 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 246 offices and customer service centers as of December 31, 2009.

The strategy followed in the commercial division is mainly focused on sub-segmentation, multi-brand positioning, cross-selling of products and service quality based on customized service models for specific customer needs. Incentive systems have been increasingly incorporated into the commercial targets differentiated by segment, which have permitted the reduction of response times to our customers and a more efficient use of allocated resources. In addition, this division s operations counts 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.

As of December 31, 2009, this division served 567,056 individual customers and 55,953 small and medium-sized Chilean companies. This customer base resulted in total loans to 530,241 debtors, which includes 67,333 residential loans, 126,452 commercial loans, 312,775 utilized lines of credit, 252,913 installment loans and 665,226 credit card accounts. As of the same date, we maintained 565,655 current accounts, 159,817 savings accounts and 109,493 time deposits.

As of December 31, 2009, loans originated by our commercial division represented 41.2% of our total loans. The following table sets forth the composition of the division s loan portfolio in accordance with our internal reporting policies, as of December 31, 2009:

	As of December 31, 2009 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Commercial Loans		
Commercial credit	Ch$ 1,383,279	25.4%
Leasing contracts	125,493	2.3
Other loans	72,913	1.3
Total Commercial Loans	1,581,685	29.0
Residential Mortgage Loans	2,460,279	45.3
Consumer Loans		
Installment loans	835,576	15.4
Credit cards	324,696	6.0
Lines of credit	233,425	4.3
Total Consumer Loans	1,393,697	25.7
Total	Ch$ 5,435,661	100.0%

We offer a variety of financial services to individuals and small and medium-sized companies, directly 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, home and vehicle insurance), savings instruments, mutual funds, stock trading and foreign currency services.

Table of Contents

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, bear fixed or variable interest rates and are generally repayable in installments over a period of up to 36 months.

As of December 31, 2009, we had Ch$835,576 million in installment loans related to the commercial division, which accounted for 43.4% of the retail market business segment s consumer loans. A majority of installment loans are denominated in pesos and are payable monthly.

Residential Mortgage Loans

As of December 31, 2009, we had outstanding residential mortgage loans to individuals and small and medium-sized companies of Ch$2,460,279 million, which represented 40.8% of the retail market business segment s total loans and 18.7% of our total loans. A feature of our mortgage loans to individuals and small and medium-sized companies is that mortgaged property typically secures all of a mortgagor s credit with us, including credit card and other loans.

Our residential mortgage loans generally have maturities that range between five and thirty years and are denominated in UF. To reduce our exposure to interest rate fluctuations and inflation with respect to our residential loan portfolio, a portion of these residential loans is funded through the issuance of mortgage finance bonds, which are recourse obligations with payment terms that are matched to the residential loans and which bear a real market interest rate plus a fixed spread over the variation rate of the UF. Chilean banking regulations limit the amount of a residential mortgage loan that may be financed with a mortgage finance bond to the lesser of 75% of 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. This is mandatory for mortgage loans financed by mortgage bonds in which the assessment value of the property is less than UF 3,000.

As an alternative to finance mortgage loans with mortgage bonds, we have promoted the expansion of *Mutuos Hipotecarios*, a mortgage-lending product, which is not financed by mortgage finance bonds, but instead through our general funds, especially long-term bonds. Accordingly, *Mutuos Hipotecarios* allow customers to finance up to 100% 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, 2009, we were Chile s second largest private sector bank in terms of amount of mortgage loans, and, based on information published by the Chilean Superintendency of Banks, we accounted for approximately 14.4% of the residential mortgage loans in the Chilean banking system and approximately 19.2% of such loans made by Chilean private sector banks.

Credit Cards

As of December 31, 2009, we issued Visa, MasterCard and Diners credit cards, including both individual and corporate 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 43 affinity card groups, most of which are associated with our co-branded programs.

As of December 31, 2009, we had 665,226 valid credit card accounts, with 847,040 credit cards to individuals and small and medium-sized companies. Total charges on our credit cards during 2009 amounted to Ch$1,180,981 million, with Ch$1,066,621 million corresponding to purchases and service payments in Chile and abroad and Ch$114,360 million corresponding to cash advances both within Chile and abroad. These charge volumes represent a 29.9% market share in terms of volume of use of bank credit cards issued in Chile.

Table of Contents

As of December 31, 2009, our credit card loans to individuals and small and medium-sized companies amounted to Ch$324,696 million and represented 16.9% of our retail market business segment s consumer loans.

Two Chilean companies that are affiliated with us in this market, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2009, Transbank S.A. had 15 shareholders and Nexus S.A. had seven shareholders, all of which were banks. As of December 31, 2009, our equity ownership in Transbank S.A. was 26.16% and our equity ownership in Nexus S.A. was 25.81%.

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.

Commercial Credits

Our commercial division s commercial loans, which mainly consist of project financing and working capital loans, are denominated in pesos, UF and U.S. dollars, may have fixed or variable rates of interest and generally mature between one and three months. As of December 31, 2009, this division had outstanding commercial loans of Ch$1,383,279 million, representing 23.0% 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 rates of interest and generally mature between one and five years for equipment and between five and twenty years for property. Most of these contracts are denominated in UF. As of December 31, 2009, this division had outstanding leasing contracts of Ch$125,493 million, representing 2.1% of the retail market business segment s total loans and 1.0% of our total loans as of the same date.

Mortgage Loans

Mortgage loans granted to individuals and medium-sized companies are non-residential mortgage loans made to finance offices, land, facilities and other real estate. This kind of credit is denominated in UF and generally have maturities of between eight and twelve years. As of December 31, 2009, this division had mortgage loans of approximately Ch$139,250 million, representing 2.3% of the retail market business segment s total loans and 1.1% 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 to which they serve. During 2009, the following cards were in operation: *Chilecard*, *Chilecard Plus*, *Chilecard Electron*, *Chilecard Empresas*, *Banjoven*, *Cheque Electrónico*, *Multiedwards, Cuenta Directa*, *Cuenta Fácil*, *Cuenta Familiar* and *Citicard*. As of December 31, 2009, we had a 22.8% market share of debit card purchase transactions, which corresponds to approximately 32.8 million purchases performed throughout the year.

Table of Contents

Lines of Credit

We had approximately 460,909 approved lines of credit to individual customers and small and medium-sized companies as of December 31, 2009 and outstanding advances to 295,859 individuals that totaled Ch$233,066 million, or 3.9% of the retail market business segment s total loans.

Our individual lines of credit 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 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 peso-denominated and the majority bear no interest (approximately 0.1% of total current accounts of the commercial division are interest-bearing), and savings accounts are denominated in UF and bear a fixed-interest rate. Time deposits are denominated in 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 peso-denominated deposits has increased in recent years as a consequence of lower and more stable inflation rates in Chile.

Consumer Division (Banco CrediChile)

The consumer division offers loans and other financial services to the lower and middle-income segments of the Chilean population, which historically have only been partially served by banking institutions. These segments include individuals whose monthly incomes fluctuate between Ch$170,000 and Ch$400,000, as well as micro businesses. Banco CrediChile represents an alternative delivery channel for our products and services in these segments, maintaining a separate brand supported by a network of 154 Banco CrediChile branches. Banco CrediChile was established in 2004 from what was formerly our consumer banking division. During 2008, the business of Banco CrediChile was combined with the consumer division of Citibank Chile as part of the merger with Citibank Chile. As a consequence of this consolidation, Banco CrediChile became the leader in the consumer segment in 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 below) targeted at low-income customers. As of December 31, 2009, Banco CrediChile had approximately 407,418 customers and total loans outstanding that amounted to Ch$591,497 million, representing 4.5% of our total loans outstanding as of the same date.

Table of Contents

The following table sets forth the composition of Banco CrediChile s loan portfolio in accordance with our internal reporting policies, as of December 31, 2009:

	As of December 31, 2009 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Consumer loans		
Installment loans	Ch$ 494,223	83.6%
Credit cards	34,733	5.9
Lines of credit	591	0.0
Total consumer loans	529,547	89.5
Residential mortgage loans	58,026	9.8
Commercial loans	3,924	0.7
Total	Ch$ 591,497	100.0%

Banco CrediChile 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 remaining business segments, especially our wholesale market, by offering services to employers, such as direct deposit capabilities, that stimulate the use of our services by employees.

The Chilean 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 individual 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 the Bank s 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 Chilean 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 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 Banking Industry Our loan portfolio may not continue to grow at the same or similar rate.

Consumer Lending

Banco CrediChile provides short to medium-term consumer loans and credit card services. As of December 31, 2009, Banco CrediChile had approximately 352,764 consumer loans that totaled Ch$494,223 million. As of the same date, Banco CrediChile customers had 221,338 valid credit card accounts, with outstanding balances of Ch$34,733 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 5,526 ATMs available through the Redbanc network.

Table of Contents

As of December 31, 2009, Banco CrediChile had 705,322 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 2009, this business segment recorded an annual operating revenue of approximately Ch$229,125 million, which represented 22.3% of our total operating revenue. As of December 31, 2009, loans made by this business segment amounted to Ch$6,874,957 million and represented 52.1% of our total loan portfolio. In addition, our wholesale banking business segment accounted for approximately Ch$54,505 million of our net income before tax for the year ended December 31, 2009, which amounts to 18.3% of our consolidated net income before tax.

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, 2009:

	As of December 31, 2009 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Commercial credits	Ch$ 5,265,915	76.6%
Foreign trade loans	768,283	11.2
Leasing loans	570,361	8.3
Factoring loans	108,864	1.6
Other loans	161,534	2.3
Total	Ch$ 6,874,957	100.0%

As of December 31, 2009, we had 9,469 debtors out of a total of 18,662 wholesale customers. Our wholesale customers are engaged in a wide range of industry sectors. As of December 31, 2009, this business segment s loans were mainly related to:

financial services (approximately 20.9% of all loans made by this business segment);

trade (approximately 18.2% of all loans made by this business segment);

manufacturing (approximately 11.6% of all loans made by this business segment);

communication and transportation (approximately 11.0% of all loans made by this business segment);

construction (approximately 10.0% of all loans made by this business segment);

agriculture, forestry and fishing (approximately 9.9% of all loans made by this business segment);

community, social and personal services (approximately 8.5% of all loans made by this business segment);

utilities (approximately 3.4% of all loans made by this business segment); and

mining (approximately 1.6% 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) Corporate Division and (ii) Large Companies and Real Estate Division.

Corporate Division

The corporate division provides services to corporations that sell more than Ch$70,000 million annually. This division s customers consist of a large proportion of Chile s publicly-traded companies, subsidiaries of multinationals and conglomerates (including those that operate in the financial, commercial, manufacturing, industrial and infrastructure sectors) and projects and concessions.

As of December 31, 2009, we had 741 large corporations as debtors out of a total of 2,317 customers in this division, with total outstanding loans that totaled Ch$3,212,652 million, representing 24.4% of our total outstanding loans as of the same date.

As shown by the following table, which has been prepared in accordance with our internal reporting policies, the corporate division s loan portfolio, as of December 31, 2009, was mainly focused on commercial credits, which accounted for almost 84% of the division s total loans.

	As of December 31, 2009 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Commercial credits	Ch$ 2,688,216	83.7%
Foreign trade loans	292,204	9.1
Leasing loans	60,023	1.9
Factoring loans	59,431	1.8
Other loans	112,778	3.5
Total	Ch$ 3,212,652	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 connection to international funds transfer networks, as well as traditional deposit products, in particular current accounts.

We are party to approximately 932 payment service contracts and approximately 205 collection service contracts with large corporations. We believe that cash management and payment service contracts provide a source of low-cost deposits and the opportunity to cross-market our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our large corporate customers, providing centralized collection services for their accounts receivable and other similar payments.

In order to provide a highly competitive service, our corporate division has the direct support of our treasury and money market operations segment, which fulfills our corporate customers liquidity and short-term loans requirements directly. We have also improved our technological offerings to facilitate connection with customers and permit self-service. Similarly, we offer derivative products, which we believe have become increasingly important, especially peso-dollar and UF-dollar forward contracts and interest rate swaps.

In recent years, the market for loans to large corporations in Chile has been characterized by reduced profit margins, due in part to the greater direct access of such customers to domestic and international capital markets and other funding sources. Consequently, we have been increasingly focused on profit margin growth and cross-selling 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 opportunities arise.

During 2009, we developed and implemented a new customer service model, which allows account executives to focus their efforts on identifying commercial needs and structuring greater added-value deals for customers, rather than on transactional duties. The implementation of this new service model has led to an important increase in revenue and in the number of weekly customer visits and business transactions.

Large Companies and Real Estate Division

The 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 between Ch$1,400 million and Ch$70,000 million. Customers served by this division are those related to commercial, manufacturing, agricultural, forestry, fishing, infrastructure and real estate sectors, as well as projects and concessions.

As of December 31, 2009, we had 8,728 large companies as debtors out of a total of 16,345 customers. Loans to large companies totaled approximately Ch$3,662,305 million as of the same date, which represented 27.8% 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, 2009:

	As of December 31, 2009 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Commercial credits	Ch$ 2,577,699	70.4%
Foreign trade loans	476,079	13.0
Leasing loans	510,338	13.9
Factoring loans	49,433	1.4
Other loans	48,756	1.3
Total	Ch$ 3,662,305	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 and 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 order to improve service quality, during 2009, the 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. We are confident this new service model will result in important improvements in service quality and productivity since each business platform will be able to fully satisfy customers financial needs. This service model is supported by sales-oriented account officers that are organized by geographic region and economic sector and that have a particular focus on service quality.

Our leasing segment is part of the large companies and real estate division and operates under the name of Banchile Leasing. Our factoring subsidiary, Banchile Factoring S.A., mainly provides its services through the large companies and real estate division.

Treasury and money market 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. This segment is also responsible for the issuance of short and long-term bonds and the issuance of long-term subordinated bonds.

The treasury and money market operations business segment is also in charge of monitoring compliance with regulatory deposit limits, technical reserves and maturity and rate matches and monitors our adherence to the security margins defined by regulatory limits, as well as risk limits for interest rate, currency and investment gaps. The treasury and money market operations business segment continually monitors the funding costs of the local financial system, comparing them with our own.

Our securities portfolio as of December 31, 2009, amounted to Ch$1,697,489 million, of which 36% consisted of securities issued by the Central Bank and the Chilean Government, 12% consisted of securities from foreign issuers, 43% consisted of securities issued by local financial institutions and 9% consisted of securities issued by Chilean corporate issuers. Our investment strategy is designed with the aim of supplementing 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, called International Financial Institutions (IFI), which manages relations with correspondent banks throughout the world, facilitating international payments and obtaining foreign currency financing for the Bank itself. As of December 31, 2009, we have established a network of approximately 600 correspondent banks, credit relations with approximately 250 correspondent banks and account relationships with approximately 42 correspondent banks. During 2009, we entered into a new Framework Agreement of financial cooperation with the Export-Import Bank of China, the main foreign trade development bank in China, a major trading partner of Chile.

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. Our principal goal in making these investments is to develop a comprehensive financial services group capable of meeting the diverse financial needs of our current and potential clients.

Table of Contents

The following table sets forth information with respect to our financial services subsidiaries in accordance with our internal reporting policies as of December 31, 2009:

	As of or for the year ended December 31, 2009		
	Assets	Equity (in millions of Ch$)	Net Income (loss)
BANK S INTERNAL REPORTING POLICIES:			
Banchile Trade Services Limited (Hong Kong)	Ch$ 619	Ch$ 604	Ch$ 44
Banchile Administradora General de Fondos S.A.	58,504	54,764	10,039
Banchile Asesoría Financiera S.A.	8,773	6,780	5,599
Banchile Corredores de Seguros Ltda	18,157	15,509	4,270
Banchile Corredores de Bolsa S.A.	732,211	79,272	16,387
Banchile Factoring S.A.	232,238	40,645	7,194
Banchile Securitizadora S.A.	493	408	
Socofin S.A.	5,997	197	(340)
Promarket S.A.	2,548	1,580	650
Citibank Agencia de Valores S.A.[(1)]			
Total	Ch$ 1,059,540	Ch$ 199,759	Ch$ 43,843

(1) As a result of the merger with Citibank Chile, Banco de Chile, as the legal successor and continuing entity of Citibank Chile, holds title to all of the rights that belonged to the corporation Citibank Agencia de Valores S.A., which consequently became a subsidiary of Banco de Chile in accordance with article 70 of the General Banking Law and Chapter 11-6 of the Updated Compilation of Standards. Effective January 1, 2009, Citibank Agencia de Valores S.A. merged with and into Banchile Corredores de Bolsa S.A.

The following table sets forth information with respect to our ownership interest in our financial services subsidiaries as of December 31, 2009:

	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 Chilean Superintendency of Securities and Insurance, the regulator of Chilean open stock corporations, 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, 2009, Banchile Corredores de Bolsa S.A. recorded an aggregate trading volume on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange of approximately Ch$6,788,286 million. As of December 31, 2009, Banchile Corredores de Bolsa S.A. had equity of Ch$79,272 million and, for the year ended December 31, 2009, net income of Ch$16,387 million, which represented 6.3% of our consolidated net income for the same period.

Table of Contents

As a result of the merger between Banco de Chile and Citibank Chile, Citibank Agencia de Valores S.A. became a subsidiary of Banco de Chile as of January 1, 2008. 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, 2009, 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 24.8% of all Chilean mutual funds assets. As of December 31, 2009, Banchile Administradora General de Fondos S.A. operated 73 mutual funds and managed Ch$4,321,893 million in net assets on behalf of more than 289,000 corporate and individual participants. Also, Banchile Administradora General de Fondos S.A. operates five investment funds: Chile Small Cap, Banchile Inmobiliario I, II and III, and Brasil and manages Ch$108,446 million in net assets on behalf of 925 participants.

During 2008, Banco de Chile acquired Legg Mason Chile, which channeled the business of Citibank Chile. Subsequently, during the same period, Legg Mason Chile merged with Banchile Administradora General de Fondos S.A.

Table of Contents

The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos S.A. as of December 31, 2009:

Name of Fund	Type of Fund		Net Asset Value As of December 31, 2009 (in millions of Ch$)
Ahorro	Fixed income (medium/long term)	Ch$	23,422
Alianza	Fixed income (medium/long term)		12,458
América Latina Accionario	Equity		34,603
Asia Fund	Debt/Equity		7,041
Asiático Accionario	Equity		16,477
Balance I	Debt/Equity		37,092
Banchile Acciones	Equity		81,348
Banda Dólar Garantizado	Fixed income (medium/long term)		8,595
Banda Estados Unidos Garantizado	Fixed income (medium/long term)		6,406
Banda Europa Garantizado	Fixed income (medium/long term)		4,445
Booster China Garantizado	Fixed income (medium/long term)		1,798
Capital Financiero	Fixed income (short term)		24,596
Capitalisa Accionario	Equity		6,144
Carry Trade Monedas	Fixed income (medium/long term)		8,216
Cash	Fixed income (short term)		84,807
Chile Accionario	Equity		30,823
Cobertura	Fixed income (medium/long term)		958
Corporate Dólar Fund	Fixed income (short term)		362,215
Corporativo	Fixed income (short term)		506,334
Crecimiento	Fixed income (short/medium term)		67,991
Depósito XXI	Fixed income (medium/long term)		208,950
Disponible	Fixed income (short term)		46,234
Dolar Fund	Fixed income (medium/long term)		18,353
Emerging Dollar Fund	Debt/Equity		32,615
Emerging Fund	Debt/Equity		50,182
Estrategia Commodities Garantizado	Fixed income (medium/long term)		7,830
Estratégico	Fixed income (medium/long term)		254,637
Euro Money Market Fund	Fixed income (short term)		29,240
Europe Fund	Debt/Equity		3,467
Flexible	Fixed income (short term)		4,916
Fortalezas Garantizado	Fixed income (medium/long term)		10,192
Fronteras del Este Garantizado	Fixed income (medium/long term)		1,997
Gigantes Garantizado	Fixed income (medium/long term)		13,501
Global Dollar Fund	Debt/Equity		2,923
Global Fund	Debt/Equity		6,327
Horizonte	Fixed income (medium/long term)		31,941
International Bond Fund	Fixed income (medium/long term)		205
Inversión	Debt/Equity		42,845
Inversión 10	Debt/Equity		1,202
Inversión 20	Debt/Equity		3,103
Inversión Brasil	Debt/Equity		41,918
Inversión China	Debt/Equity		10,596
Inversión Dollar 30	Debt/Equity		3,168
Inversionista Calificado I	Equity		16,486
Latin America Fund	Debt/Equity		114,575
Liquidez 2000	Fixed income (short term)		715,188
Liquidez Full	Fixed income (short term)		689,908
Marfil Garantizado	Fixed income (medium/long term)		9,599
Mid Cap	Equity		20,350
Muralla China Garantizado	Fixed income (medium/long term)		29,176

Operacional	Fixed income (medium/long term)		27,299
Oportunidades Sectoriales	Debt/Equity		11,482
Patrimonial	Fixed income (short term)		114,465
Performance	Fixed income (short/medium term)		14,430
Potencias Garantizado	Fixed income (medium/long term)		61,584
Renta Futura	Fixed income (medium/long term)		114,645
Retorno Dólar	Fixed income (medium/long term)		6,034
Retorno LP UF	Fixed income (medium/long term)		24,673
Retorno MP	Fixed income (medium/long term)		4,507
Tigres Garantizado	Fixed income (medium/long term)		7,097
U.S. Dollar Fund	Debt/Equity		3,216
U.S. Fund	Debt/Equity		7,829
USA Accionario	Equity		3,751
Utilidades	Fixed income (short/medium term)		88,714
Verde Amarelo Garantizado	Fixed income (medium/long term)		34,693
Viejo Continente Accionario	Equity		1,187
Visión Dinámica Acciones	Debt/Equity		5,904
Visión Dinámica Activa A	Debt/Equity		15,707
Visión Dinámica B	Debt/Equity		5,770
Visión Dinámica C	Debt/Equity		7,639
Visión Dinámica D	Debt/Equity		1,876
Visión Dinámica E	Debt/Equity		3,682
Wall Street 107 Garantizado	Fixed income (medium/long term)		8,316
Total		**Ch$**	**4,321,893**

Table of Contents

As of December 31, 2009, Banchile Administradora General de Fondos S.A. recorded equity of Ch$54,764 million and, for the year ended December 31, 2009, net income of Ch$10,039 million, which represented 3.8% of our 2009 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 them the cash flows involved and performing the collection of the related instruments. As of December 31, 2009, Banchile Factoring S.A. had net income of Ch$7,194 million, which represents 2.75% of our 2009 consolidated net income, and an estimated 22.7% market share in Chile s factoring industry.

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, 2009, Banchile Asesoría Financiera S.A. had equity of Ch$6,780 million and, for the year ended December 31, 2009, net income of Ch$5,599 million.

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, 2009, Banchile Corredores de Seguros Limitada had equity of Ch$15,509 million and, for the year ended December 31, 2009, net income of Ch$4,270 million. Banchile Corredores de Seguros Limitada had a 5.3% market share, measured by the number of policies (in Chilean pesos) sold by insurance brokerage companies during 2008, the latest year for which information is available for insurance brokerage companies.

Securitization Services

We offer investment products to meet the demands of institutional investors, such as private pension funds and insurance companies, through Banchile Securitizadora S.A. This subsidiary securitizes financial assets, which involves the issuance of 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, 2009, Banchile Securitizadora S.A. had equity of Ch$408 million and, for the year ended December 31, 2009, no net income. As of December 31, 2009, Banchile Securitizadora S.A. had a 19.6% market share measured by volume of assets securitized.

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, 2009, Promarket S.A. had equity of Ch$1,580 million and, for the year ended December 31, 2009, net income of Ch$650 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, 2009, Socofin S.A. had equity of Ch$197 million and, for the year ended December 31, 2009, a net loss of Ch$340 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, 2009, Banchile Trade Services Limited had equity of Ch$604 million and, for the year ended December 31, 2009, net income of Ch$44 million.

Distribution Channels and Electronic Banking

Our distribution network provides integrated financial services and products to our customers through a wide range of channels. This network includes ATMs, branches, on-line banking and phone-banking devices. Our 1,588 ATMs (that form part of Redbanc s 5,526 ATM system) allow our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2009, we had a network of 400 retail branches and customer service centers throughout Chile. The branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, disburse cash, 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 homepages that are segmented by the different target markets we serve. Our individual 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. Our corporate homepage offers services including our office banking service, *Banconexion Web*, which enables our corporate customers to perform all of their banking transactions from their offices. Both homepages offer our customers the sale of third-party products with exclusive benefits. We also have a homepage designed for our investor customers, through which they can perform transactions such as stock trading, time deposit taking and opening savings accounts. Our foreign trade customers can rely on our international business homepage, 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. In 2009, approximately 439,273 individual and corporate customers performed close to 17.8 million transactions monthly on our website, of which approximately 4.0 million were monetary transactions.

In addition, we provide our customers with access to a 24-hour phone-banking call center that grants them access to account information and allows them to effect fund transfers and certain payments. This service, through which we receive approximately 482,663 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.

Table of Contents

In 2001, in association with Banco de Crédito e Inversiones, we created a company called Comercio Electrónico Artikos Chile S.A. with the purpose of providing Chilean companies with the opportunity to trade their products and services electronically through the internet. We supplement this service with a wide range of financial services and electronic payment means.

Effects of Massive Earthquake on our Assets

On February 27, 2010, a massive earthquake hit Chile s center-south region. Private and public Chilean infrastructure was significantly damaged. The Chilean authorities have estimated that the post-earthquake reconstruction process will take at least two years.

Individual wealth was impacted and the homes of some of the financial system s customers in the affected zones were destroyed by the earthquake. To help our customers, we have eased payment terms for our non-delinquent clients in the affected areas. Although the risk associated with this event varies from bank to bank, we have determined that the impact on the credit quality of our loans portfolio will not be significant. This estimation relies on (i) our low loan exposure in the most affected zones, as these areas only represent 8% of our loan portfolio, (ii) the financial strength of our customers and (iii) the fact that a significant portion of the damage was insured. Thus, as of March 31, 2010, we have established allowances for loan losses of approximately Ch$2.4 billion (U.S.$4.6 million) as a result of the earthquake. We believe that our risk position should allow us to face any temporary credit risk volatility.

In addition, in the first quarter of 2010 we recognized property and equipment impairments of Ch$1.1 billion (U.S.$2.1 million) as a result of the structural damage suffered by some of our branches and customer service centers, which have been complemented by a cash donation of Ch$0.8 billion (U.S.$1.4 million) through a national fundraising campaign for post-earthquake reconstruction and by Ch$0.9 billion (U.S.$1.8 million) that we disbursed in order to support our staff that suffered damage due to the earthquake.

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 major Chilean banks, a financial services company and a technology services company. We own 20% of AFT s shares, which represented an original capitalization of approximately U.S.$13.4 million as of June 8, 2005.

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

In 2007, as shareholders of AFT, we made extraordinary contributions for a total amount of U.S.$4,114,000 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. Banco de Chile, as AFT s shareholder, believes that AFT may continue to finance its operational expenses with revenue generated in the ordinary course of its business. However, if we had 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, commercial banking, includes 23 private sector banks and one public sector bank, Banco del Estado. As of December 31, 2009, a group of four banks accounted for 67.9% of all outstanding loans placed by Chilean financial institutions: Banco Santander-Chile (19.9%), our bank (19.1%), Banco del Estado (16.1%) and Banco de Crédito e Inversiones (12.8%).

We face significant and increasing competition in all of the market segments we serve. As a commercial bank offering a range of services to all types of businesses and individual customers, we face a variety of competitors, ranging from other large, private sector commercial banks to more specialized entities like 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 publicly-owned bank, which has a larger distribution network and larger customer base than we do. Banco del Estado, which operates under the same regulatory regime as Chilean private sector banks, was the third largest bank in Chile as of December 31, 2009, with outstanding total loans of Ch$11,078,493 million, representing a 16.1% market share, according to data published by the Chilean Superintendency of Banks.

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

In the retail market, we compete with other private sector Chilean banks, as well with Banco del Estado. Among private banks, we consider our strongest competitors in this market to be Banco Santander-Chile, Banco de Crédito e Inversiones and BBVA, as these banks have developed business strategies that focus on both small and medium-sized companies and lower-middle to middle income brackets of the Chilean population. In addition, with respect to high-income individuals, as of December 2009, we considered our strongest competitors in this market to be Banco Santander-Chile and Banco Itaú Chile.

The Chilean banking industry has experienced increased levels of competition in recent years from domestic as well as foreign banks, which has led to, among other things, consolidation in the industry. Consequently, banks strategies have, in general terms, been aimed at reducing costs and improving efficiency standards. Although we are making our best efforts in order to deal with increasing competition, we also acknowledge that our income may decrease due to the extent and intensity of competition.

We expect this trend of increasing competition and consolidation to continue, particularly in connection with the formation of new large financial groups and the creation of new niche banks. In this regard, in mid-1996, Banco Santander of Spain took control of Banco Osorno and merged it into its Chilean operations, changing its name to Banco Santander-Chile. In addition, Banco O Higgins and Banco de Santiago merged in January 1997, forming Banco Santiago. In 1999, Banco Santander of Spain took control of Banco Santiago. During 2001, Banco de Chile merged with Banco de A. Edwards, which came into effect on January 1, 2002. In August 2002, Banco Santiago and Banco Santander Chile, then the second and fourth largest banks in Chile, respectively, merged and became Chile s largest bank under the former s name. In 2003, Banco del Desarrollo merged with Banco Sudamericano, and in 2004, Dresdner Banque Nationale de Paris merged with Banco Security. In 2005, Banco de Crédito e Inversiones merged with Banco Conosur. In 2007, Banco Itaú acquired Bank Boston unit in Chile, while Rabobank acquired HNS Bank and Scotiabank acquired Banco del Desarrollo. In the first quarter of 2008, we merged with Citibank Chile, and afterwards the Chilean Superintendency of Banks authorized the opening of a branch of the Norwegian bank DnB NOR and the acquisition of ABN Amro Bank by The Royal Bank of Scotland. In early 2009, the merger agreement between Scotiabank Sudamericano and Banco del Desarrollo was completed, through which the former became Scotiabank Chile and the latter ceased to exist. In addition, during 2009, Banco Monex was acquired by Consorcio Group, which absorbed the whole operations of the former and its subsidiaries, becoming Banco Consorcio.

Table of Contents

Although we believe that we are currently large enough to compete effectively in 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, with finance companies and with department stores, 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 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. The participation of these players has 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 market share of only 1.5% as of December 31, 2009 according to the Chilean Superintendency of Banks, the presence of these banks is likely to make consumer banking more competitive.

Below is a set of tables and figures for the years ended December 31, 2008 and 2009 that shows our position within the Chilean banking system. Prior years have not been included in these tables as new accounting rules applicable to the presentation of financial information by the Chilean banking industry became in effect at January 1, 2008, and figures before January 1, 2008 are not comparable. In addition, the market information is set forth under Chilean GAAP as published by the Chilean Superintendency of Banks.

The following table sets forth certain statistical information on the Chilean financial system as of December 31, 2009, according to information published by the Chilean Superintendency of Banks under Chilean GAAP:

	As of December 31, 2009							
	Assets		Loans[1]		Deposits		Equity[2]	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
	(in millions of Ch$, except percentages)							
CHILEAN GAAP:								
Private sector banks	Ch$ 84,917,540	83.4%	Ch$ 57,885,859	83.9%	Ch$ 47,805,932	81.6%	Ch$ 7,100,362	88.4%
Banco del Estado	16,893,528	16.6	11,078,493	16.1	10,758,141	18.4	934,942	11.6
Total banking system	Ch$ 101,811,068	100.0%	Ch$ 68,964,352	100.0%	Ch$ 58,564,073	100.0%	Ch$ 8,035,304	100.0%

Source: Chilean Superintendency of Banks

(1) Net of interbank loans.
(2) For purposes of this table, equity includes capital and reserves, net income for the applicable period and a provision for minimum dividends.

Table of Contents

Loans

The following table sets forth our market share and the market share of each of our principal private sector competitors in terms of total loans as of the dates indicated according to information published by the Chilean Superintendency of Banks under Chilean GAAP:

	Bank Loans[(1)] As of December 31, 2009	
	2008	2009
CHILEAN GAAP:		
Banco Santander-Chile	20.7%	19.9%
Banco de Chile	19.4	19.1
Banco de Crédito e Inversiones	13.3	12.8
BBVA Bilbao Vizcaya	7.5	7.0
Banco Corpbanca	7.0	7.3
Total market share	68.0%	66.1%

Source: Chilean Superintendency of Banks

(1) Provisions for loan losses not deducted.

Credit Quality

According to information published by the Chilean Superintendency of Banks, as of December 31, 2009, our ratio of allowances to total loans was 2.45%. This ratio is slightly above the 2.43% posted by the Chilean financial system as a whole. The following table sets forth the ratio of allowances to total loans of the largest private sector banks and that of the financial system as a whole (including such banks) as of December 31, 2008 and 2009, according to information published by the Chilean Superintendency of Banks under Chilean GAAP:

	Allowances to Total Loans As of December 31,	
	2008	2009
CHILEAN GAAP:		
Banco de Chile	1.78%	2.45%
Banco de Crédito e Inversiones	1.41	2.21
BBVA Bilbao Vizcaya	1.13	1.61
Banco Santander Chile	1.88	2.55
Banco Corpbanca	1.51	1.91
Financial system	1.86%	2.43%

Source: Chilean Superintendency of Banks

According to information published by the Chilean Superintendency of Banks under Chilean GAAP, as of December 31, 2009, we had a ratio of past-due loans to total loans of 0.68%, as compared to the ratio of 1.36% by the Chilean financial system as a whole during the same period. The following table sets forth the ratio of past-due loans to total loans for the largest private sector banks as of December 31, 2008 and 2009 on a consolidated basis, according to information published by the Chilean Superintendency of Banks under Chilean GAAP:

Past-Due Loans to Total Loans

	As of December 31,	
	2008	2009
CHILEAN GAAP:		
BBVA Bilbao Vizcaya	1.00%	1.02%
Banco Santander Chile	1.10	1.41
Banco de Crédito e Inversiones	0.80	1.19
Banco de Chile	0.60	0.68
Banco Corpbanca	0.78	0.82
Financial system	0.99%	1.36%

Source: Chilean Superintendency of Banks

Table of Contents

Deposits

We had deposits of Ch$11,145,557 million as of December 31, 2009, according to information published by the Chilean Superintendency of Banks under Chilean GAAP. As a consequence, we had a 19.0% market share in deposits, which placed us in first place among private sector banks. The following table sets forth the market shares in terms of deposits for private sector banks as of December 31, 2008 and 2009, on a consolidated basis, according to information published by the Chilean Superintendency of Banks under Chilean GAAP:

	Deposits As of December 31,	
	2008	**2009**
CHILEAN GAAP:		
Banco de Chile	18.8%	19.0%
Banco Santander Chile	20.8	18.3
Banco de Crédito e Inversiones	13.2	13.5
BBVA Bilbao Vizcaya	7.4	6.6
Banco Corpbanca	6.1	6.5
Total market share	66.3%	63.9%

Source: Chilean Superintendency of Banks

Capital and Reserves

With Ch$1,315,382 million in capital and reserves (not including net income, non-controlling interest and provisions for minimum dividends) as of December 31, 2009, according to information published by the Chilean Superintendency of Banks, we were the second largest private sector commercial bank in Chile in terms of capital and reserves.

The following table sets forth the level of capital and reserves for the largest private sector banks in Chile as of December 31, 2008 and 2009, according to information published by the Chilean Superintendency of Banks under Chilean GAAP:

	Capital and Reserves As of December 31,	
	2008	**2009**
	(in millions of Ch$)	
CHILEAN GAAP:		
Banco Santander Chile	Ch$ 1,198,957	Ch$ 1,386,238
Banco de Chile	1,165,014	1,315,382
Banco de Crédito e Inversiones	620,412	783,611
Banco Corpbanca	436,191	460,980
BBVA Bilbao Vizcaya	Ch$ 384,415	Ch$ 432,626

Source: Chilean Superintendency of Banks

Return on Capital and Reserves

Our return on capital and reserves, was 19.6% for the year ended December 31, 2009, according to information published by the Chilean Superintendency of Banks under Chilean GAAP. The following table sets forth our return on capital and reserves and the returns on capital and reserves of our principal private sector competitors and the Chilean financial system, in each case as of December 31, 2008 and 2009, according to information published by the Chilean Superintendency of Banks under Chilean GAAP:

	Return on Capital and Reserves Year Ended December 31,	
	2008	2009
CHILEAN GAAP:		
Banco de Chile	29.8%	19.6%
Banco Santander-Chile	34.6	31.1
Banco de Crédito e Inversiones	31.0	20.5
Banco Corpbanca	19.8	18.5
BBVA Bilbao Vizcaya	18.1	15.7
Financial system average	22.2%	16.5%

Source: Chilean Superintendency of Banks

Efficiency

For the year ended December 31, 2009, our efficiency ratio (operating expenses as a percentage of our operating revenues) was 48.8%, on a consolidated basis. The following table sets forth the efficiency ratios of the largest private sector Chilean banks as of December 31, 2008 and 2009, according to information published by the Chilean Superintendency of Banks under Chilean GAAP:

	Efficiency Ratio[1] As of December 31,	
	2008	2009
CHILEAN GAAP:		
BBVA Bilbao Vizcaya	53.7%	53.0%
Banco de Crédito e Inversiones	50.4	47.5
Banco de Chile	51.9	48.8
Banco Santander-Chile	37.9	34.5
Banco Corpbanca	45.6	42.7
Financial system average	49.2%	46.2%

Source: Chilean Superintendency of Banks

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

Table of Contents

REGULATION AND SUPERVISION

General

In Chile, only banks may maintain current accounts for their customers, conduct foreign trade operations and, together with non-banking financial institutions, accept time deposits. The principal authorities that regulate financial institutions in Chile are the Chilean Superintendency of Banks and the Central Bank. Chilean banks are primarily subject to the Chilean 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 modern Chilean banking system dates back to 1925 and has been characterized by periods of substantial regulation and state 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 Chilean General Banking Law. In 2004, amendments to the General Banking Law granted additional powers to banks, including general underwriting powers for new issues 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, administration of investment funds, 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 option.

Following the Chilean banking crisis of 1982 and 1983, the Chilean 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 problem loan portfolios at the book value of the loan portfolios. 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 the loans), 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 by the Chilean Constitution. It is subject to its Ley Orgánica Constitucional, or 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 private sector laws, but is not subject to the laws applicable to the public sector. It 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 finance companies, foreign exchange (including the Formal Exchange Market) and bank deposit-taking activities.

The Chilean Superintendency of Banks

Banks are supervised and controlled by the Chilean Superintendency of Banks, a Chilean governmental agency. The Chilean 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 companies. Furthermore, in cases of noncompliance with its legal and regulatory requirements, the Chilean 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 must also approve any amendment to a bank s bylaws or any increase in its capital.

Table of Contents

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

Any person wishing to acquire, directly or indirectly, 10.0% or more of the share capital of a bank must obtain the prior approval of the Chilean Superintendency of Banks. Without such approval, the holder will not have the right to vote such shares. The Chilean Superintendency of Banks may only refuse to grant its approval based on specific grounds set forth in the Chilean General Banking Law.

According to Article 35 bis of the Chilean General Banking Law, the prior authorization of the Chilean 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 Chilean Superintendency of Banks to be more than 15.0% of all loans in the Chilean banking system. The intended purchase, merger or expansion may be denied by the Chilean Superintendency of Banks, or, if the acquiring bank or resulting group would own a market share in loans determined to be more than 20.0% of all loans in the Chilean banking system, the purchase, merger, or expansion may be conditioned on one or more of the following:

- that the bank or banks maintain Regulatory Capital higher than 8.0% and up to 14.0% 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 margin for interbanking loans be reduced to 20.0% of the resulting bank s Regulatory Capital.

If the acquiring bank or resulting group would own a market share in loans determined by the Chilean 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 lower than 10% of their risk-weighted assets for a period set by the Chilean 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 Chilean Superintendency of Banks, the following ownership disclosures are required:

banks must disclose to the Chilean Superintendency of Banks the identity of any person owning, directly or indirectly, 5.0% or more of its shares;

Table of Contents

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 Chilean Superintendency of Banks the identity of the beneficial owners of the ADSs representing 5.0% or more of such bank s shares; and

bank shareholders who individually hold 10.0% or more of a bank s capital stock and who are controlling shareholders must periodically inform the Chilean 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 making loans, factoring and leasing activities, accepting deposits and, subject to 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 Chilean 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 Chilean 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 ends 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 forwards, 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, 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 and 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 set to protect minority shareholders decisions. In addition, regulation was passed to expand the kind of information that public companies must disclose to the market and to hold a company board of directors liable for the non-compliance with such disclosure obligations.

Table of Contents

Deposit Insurance

According to the Chilean 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 held by individuals:

Deposits in current accounts;

Deposits in savings accounts;

Other demand deposits; and

Deposits in savings accounts with unlimited withdrawals.

In addition, the Chilean Government guarantees up to 90.0% 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$2,261,831 or U.S.$4,466.22 as of December 31, 2009).

Reserve Requirements

Deposits are subject to a reserve requirement of 9.0% 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 (1) gaps between assets and liabilities maturing within less than 30 days do not exceed a bank s Basic Capital and (2) gaps between assets and liabilities maturing within less than 90 days do not exceed twice a bank s Basic Capital.

Minimum Capital

Under the Chilean General Banking Law, a bank must have a minimum paid-in capital and reserves of UF 800,000 (Ch$16,754 million or U.S.$33.1 million as of December 31, 2009). However, a bank may begin its operations with 50.0% 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 12.0%. When such a bank s paid-in capital reaches UF 600,000 (Ch$12,566 million or U.S.$24.8 million as of December 31, 2009), the Regulatory Capital ratio requirement is reduced to 10.0%.

Capital Adequacy Requirements

According to the General Banking Law, each bank should have Regulatory Capital of at least 8.0% of its risk-weighted assets, net of required allowances.

Banks should also have a Basic Capital of at least 3.0% 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 Chilean 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.

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 P&L 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 the case of Banco de Chile, the Chilean Superintendency of Banks decided that, in light of the Bank s merger with Citibank Chile, the applicable percentage would be 10%, not 8%.) may not be greater than Regulatory Capital. As of December 31, 2009, the price risk of our trading book totaled Ch$30,197 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, 2009:

	As of December 31, 2009 (in millions of Ch$, except percentage)
(a) 10% risk-weighted assets	1,480,130
(b) Trading price risk	30,197
(c = a + b) Total risk	1,510,327
(d) Regulatory Capital	1,879,548
(e = d - c) Risk Availability	369,221
(f = c/d) Risk used as a Percentage of Regulatory Capital	80.4%

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 Basic Capital of the Bank.

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 value of Basic Capital for the following 30 days or two times the value of Basic Capital for the following 90 days. Subject to the Chilean 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.).

Table of Contents

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

Prior to June 2006, the Chilean 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). With these three classifications now in place, the Chilean classification framework is in line with current international standards prevalent in all major financial centers. 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 (or CMTM) of the transaction, if positive, reflects the amount of money owed by the customer today. In other words, the CMTM represents the amount the customer would pay us if the transaction was unwound today. As we are interested in measuring the amount of money that the customer would owe us at maturity, the potential future value of the transaction is added to the CMTM. This potential is measured as the Credit Risk Factor multiplied by the Notional Amount. The Credit Risk Factor reflects the potential fluctuation (under some specific confidence level) that the market factors involved in the transaction may have in the future until maturity, that positively (or negatively) impact the value (or risk) of the transaction for the bank. The regulator determines the Credit Risk Factor by considering market factors (interest rates, FX rates, equity prices, etc.) and the types of transactions (FX forwards, interest rate swaps, etc.).

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 10.0% of the bank s Regulatory Capital, or in an amount that exceeds 30.0% of its Regulatory Capital if the excess over 10.0% 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 10.0% ceiling for unsecured credits is raised to 15.0% if secured by a pledge over the concession, or if granted by two or more banks or finance 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 30.0% 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 5.0% of the bank s Regulatory Capital. The 5.0% unsecured ceiling is raised to 25.0% of the bank s Regulatory Capital if the excess over 5.0% 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 1.0% 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 10.0% 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 once during such employee s term of employment.

Classification of Banks

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

Solvency and Management

In accordance with amended regulations of the Chilean 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 (1) level A in terms of solvency and level B in terms of management, (2) level B in terms of solvency and level A in terms of management, or (3) 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 (1) level B in terms of solvency and level B in terms of management for two or more consecutive review periods, (2) level A in terms of solvency and level C in terms of management, or (3) 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 10.0% for level A banks, equal to or greater than 8.0% and less than 10.0% for level B banks and less than 8.0% 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.

Table of Contents

Obligations Denominated in Foreign Currencies

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

- a reserve requirement of 9.0% for demand deposits and 3.6% for time deposits. See Reserve Requirements above; and

- a bank s aggregate amount of net foreign currency liabilities having an original maturity of less than 30 days cannot exceed its net capital base, and the aggregate amount of net foreign currency liabilities having an original maturity of less than 90 days cannot exceed twice its net capital base.

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 Chilean 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 open stock 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 a special 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 Chilean 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 Chilean 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 directors of both banks, as well as by the Chilean 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 25.0% 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 12.0%. If a bank fails to pay an obligation, it must notify the Chilean Superintendency of Banks, which shall determine if the bank is solvent.

Table of Contents

Dissolution and Liquidation of Banks

The Chilean 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 such case, the Chilean Superintendency of Banks must revoke the bank s authorization to exist and order its mandatory liquidation, subject to agreement by the Central Bank. The Chilean 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 Chilean Superintendency of Banks must state the reason for ordering the liquidation and must name a liquidator, unless the Chilean 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 (1) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (2) bonds issued by foreign companies. Such foreign currency securities must have a minimum rating as indicated in the table below:

Rating Agency	Short Term	Long Term
Moody s	P2	Baa3
Standard and Poor s	A3	BBB-
Fitch IBCA	F2	BBB-

A Chilean bank may invest in securities having a minimum rating as follows, provided that if the total amount of these investments exceeds 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	A3	BB-
Fitch IBCA	F2	BB-

If investments in these securities and certain loans referred to below exceed 70% of the Regulatory Capital of the bank, an allowance for 100% of the excess shall be established, unless the excess, up to 70% of the bank s Regulatory Capital, is invested in securities having a minimum rating as follows:

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 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 not less than BB- or its equivalent and, in general, to individuals and entities residing or domiciled abroad.

53

In the event that the sum of the investments of a bank in foreign currency and the commercial and foreign trade loans granted to foreign individuals and entities exceeds 70.0% of the Regulatory Capital of such bank, the excess is subject to a mandatory reserve of 100.0%.

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 Chilean Superintendency of Banks, the Board of Directors of Banco de Chile approved, on October 24, 2008, 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 Banco de Chile s policies and internal regulations in connection with the disclosure of information to the public and the systems that have been implemented at the Bank.

In addition, these policies and internal regulations establish codes of conduct that Banco de Chile s employees and other persons with access to certain information must comply with in order to protect information related to the Bank.

The Manual is available to the general public on Banco de Chile s web page at www.bancochile.cl.

Prevention of Money Laundering and the Financing of Terrorism

On March 6, 2006, the Chilean 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 the regulations, the Chilean 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 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) is needed to enable the 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 Chilean Superintendency of Banks has defined as persons politically exposed at the international level, or PEPs, both within Chile and internationally;
- 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 the Bank from being used as an intermediary to carry out money laundering operations;
- Creation of a Compliance Officer on a senior management level who is responsible for coordinating and monitoring day-to-day AML compliance;

Table of Contents

Establishment of an AML Committee, whose main function is planning and coordinating the fulfillment of AML policies and procedures. Our AML Committee gathers on a monthly basis and its membership includes the Chairman of the Board, the Chief Executive Officer, Legal Counsel, Operations and Technology Manager, CEO of Banchile Administradora General de Fondos S.A., the Risk Control Manager and the Global Compliance Head. In addition, we have also established a Transaction Analysis Committee, whose purpose is to analyze suspicious transactions, determine continuity of business with such clients and report these matters to the Financial Analysis Unit;

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 issues;

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

Independent testing in the Compliance area, which must be conducted by the Bank s Internal Audit Department.

Table of Contents

ORGANIZATIONAL STRUCTURE

The following diagram presents our current corporate structure, including our subsidiaries and their respective ownership interests:

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.

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 an approximately 15,600 square meter building located at Huerfanos 740, Santiago, Chile where the remainder of our executive offices are located. As of December 31, 2009, we owned the properties on which 165 of our full-service branches and other points of sale are located (approximately 129,110 square meters of office space). As of December 31, 2009, we had leased office space for our remaining 235 full-service branches and other points of sale, as well as for our representative offices. 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.

We also own 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.

For a description of the effects of the massive earthquake on our assets, see Principal Business Activities Distribution Channels and Electronic Banking Effects of Massive Earthquake on our Assets above.

Table of Contents

SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with our audited consolidated financial statements as well as 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, have been 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 Consumer Price Index 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. The nominal rates calculated for each period have been converted into real rates using the following formulas:

and

Where:

Rp = real average rate for peso-denominated assets and liabilities (in Ch$ and UF) for the period;

Rd = real average rate for foreign currency denominated assets and liabilities for the period;

Np = nominal average rate for peso-denominated assets and liabilities for the period;

Nd = nominal average rate for foreign currency denominated assets and liabilities for the period;

D = devaluation rate of the Chilean peso to the dollar for the period; and

I = inflation rate in Chile for the period (based on the variation of the Consumer Price Index).

The real interest rate can be negative for a portfolio of peso-denominated loans when the inflation rate for the period is higher than the average nominal rate of the loan portfolio for the same period. A similar effect could occur for a portfolio of foreign currency denominated loans when the inflation rate for the period is higher than the combined effect of the devaluation rate for the period and the corresponding average nominal rate of the portfolio.

The formula for the average real rate for foreign currency denominated assets and liabilities (Rd) reflects a gain or loss in purchasing power caused by the difference between the devaluation rate of the Chilean peso and the inflation rate in Chile during the period.

Table of Contents

The following example illustrates the calculation of the real interest rate for a U.S. dollar asset bearing a nominal annual interest rate of 10% (Nd = 0.10), assuming a 5% annual devaluation rate (D = 0.05) and a 12% annual inflation rate (I = 0.12):

In the example, since the inflation rate was higher than the devaluation rate, the real rate is lower than the nominal rate in dollars. If, for example, the annual devaluation rate were 15%, using the same numbers, the real rate in Chilean pesos would be 12.9%, which is higher than the nominal rate in dollars. Using the same numbers, if the annual inflation rate were greater than 15.5%, the real rate would be negative.

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 monetary gain or loss on interest earning assets and interest bearing liabilities is not included as a component of interest revenue or interest expense because inflation effects are taken into account in the calculation of real interest rates.

Table of Contents

The following tables set forth, by currency of denomination, average balances and, where applicable, interest amounts and nominal and real rates for our assets and liabilities under IFRS for the years ended December 31, 2008 and 2009:

	Year Ended December 31,							
	2008				2009			
	Average balance	Interest earned[1]	Average nominal rate	Average real rate	Average balance	Interest earned[1]	Average nominal rate	Average real rate
	(in millions of Ch$, except percentages)							
IFRS:								
Assets								
Interest earning assets								
Cash and due from banks								
Ch$	Ch$ 411,600	Ch$ 391	0.09%	(6.91%)	Ch$ 462,300	Ch$ 17		1.40%
UF								
Foreign currency	380,921	2,997	0.79	18.92	352,163	173	0.05	(18.33)
Total	792,521	3,388	0.43	5.50	814,463	190	0.02	(7.13)
Financial investments								
Ch$	853,423	62,619	7.34	(0.18)	816,111	28,762	3.52	4.97
UF	322,485	36,753	11.40	3.60	619,451	6,086	0.98	2.40
Foreign currency	203,955	5,053	2.48	20.92	192,708	7,408	3.84	(15.24)
Total	1,379,863	104,425	7.57	3.82	1,628,270	42,256	2.60	1.60
Loans in advance to banks								
Ch$	158,643	15,342	9.67	1.99	204,703	5,479	2.68	4.11
UF								
Foreign currency								
Total	158,643	15,342	9.67	1.99	204,703	5,479	2.68	4.11
Commercial loans								
Ch$	3,399,586	321,859	9.47	1.80	3,758,821	275,631	7.33	8.83
UF	3,544,228	481,192	13.58	5.62	3,239,648	76,109	2.35	3.78
Foreign currency	1,662,610	92,525	5.57	24.56	1,540,276	64,139	4.16	(14.97)
Total	8,606,424	895,576	10.41	7.77	8,538,745	415,879	4.87	2.62
Consumer loans								
Ch$	1,814,183	372,977	20.56	12.12	1,831,744	378,004	20.64	22.32
UF	34,337	5,573	16.23	8.09	40,354	1,627	4.03	5.49
Foreign currency								
Total	1,848,520	378,550	20.48	12.04	1,872,098	379,631	20.28	21.96
Residential mortgage loans								

Ch$								
UF	2,167,810	301,013	13.89	5.91	2,359,746	57,351	2.43	3.86
Foreign currency								
Total	2,167,810	301,013	13.89	5.91	2,359,746	57,351	2.43	3.86
Repurchase agreement								
Ch$	49,418	4,639	9.39	1.73	13,799	1,193	8.65	10.17
UF					28,331			
Foreign currency	2,668	27	1.01	19.19	625			
Total	52,086	4,666	8.96	2.62	42,755	1,193	2.79	3.28
Total interest earnings assets								
Ch$	6,686,853	777,827	11.63	3.81	7,087,478	689,086	9.72	11.26
UF	6,068,860	824,531	13.59	5.63	6,287,530	141,173	2.25	3.68
Foreign currency	2,250,154	100,602	4.47	23.27	2,085,772	71,720	3.44	(15.57)
Total	Ch$ 15,005,867	Ch$ 1,702,960	11.35%	7.47%	Ch$ 15,460,780	Ch$ 901,979	5.83%	4.56%

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

Table of Contents

	Year Ended December 31, 2008					2009			
		Average balance	Interest earned(1)	Average nominal rate	Average real rate		Average balance	Interest earned(1)	Average nominal rate	Average real rate
	(in millions of Ch$, except percentages)									
IFRS:										
Assets										
Non-interest earning assets										
Transaction in the course of collection										
Ch$	Ch$	287,211	Ch$			Ch$	234,486	Ch$		
UF							9			
Foreign currency		223,668					149,347			
Total		510,879					383,842			
Allowances for loan losses										
Ch$		(168,266)					(260,879)			
UF										
Foreign currency										
Total		(168,266)					(260,879)			
Derivatives										
Ch$		692,853					604,845			
UF		4								
Foreign currency		62,310					43,429			
Total		755,167					648,274			
Investment in other companies										
Ch$		11,350					9,024			
UF										
Foreign currency		2					2			
Total		11,352					9,026			
Intangible assets										
Ch$		92,474					89,144			
UF										
Foreign currency										
Total		92,474					89,144			
Fixed assets										
Ch$		214,320					210,711			
UF										
Foreign currency										
Total		214,320					210,711			
Current tax assets										

Ch$	4,426		1,185	
UF				
Foreign currency				
Total	4,426		1,185	
Deferred tax assets				
Ch$	54,299		62,627	
UF				
Foreign currency				
Total	54,299		62,627	
Other assets				
Ch$	154,356		84,941	
UF	38,847		579,991	
Foreign currency	39,908		12,650	
Total	233,111		677,582	
Total non-interest earning assets				
Ch$	1,343,023		1,036,084	
UF	38,851		580,000	
Foreign currency	325,888		205,428	
Total	Ch$ 1,707,762		Ch$ 1,821,512	
Total assets				
Ch$	8,029,876	777,827	8,123,562	689,086
UF	6,107,711	824,531	6,867,530	141,173
Foreign currency	2,576,042	100,602	2,291,200	71,720
Total	Ch$ 16,713,629	Ch$ 1,702,960	Ch$ 17,282,292	Ch$ 901,979

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

Table of Contents

	Year Ended December 31,							
	2008				2009			
	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate
	(in millions of Ch$, except percentages)							
IFRS:								
Liabilities								
Interest bearing liabilities								
Savings accounts								
Ch$	Ch$ 4,088,010	Ch$ 308,631	7.55%	0.02%	Ch$ 3,919,286	Ch$ 140,615	3.59%	5.04%
UF	2,316,179	256,992	11.10	3.32	2,434,064	7,475	0.31	1.71
Foreign currency	1,190,174	44,533	3.74	22.41	1,214,967	20,711	1.70	(16.98)
Total	7,594,363	610,156	8.03	4.53	7,568,317	168,801	2.23	0.43
Repurchase agreements								
Ch$	399,459	26,013	6.51	(0.95)	239,295	5,535	2.31	3.74
UF	2,914	56	1.92	(5.22)	31,354	725	2.31	3.74
Foreign currency	36,972	2,404	6.50	25.67	4,409	99	2.25	(16.54)
Total	439,345	28,473	6.48	1.26	275,058	6,359	2.31	3.42
Borrowings from financial institutions								
Ch$	53,180	4,035	7.59	0.05	67,314	2,479	3.68	5.13
UF	11,672	43	0.37	(6.66)	2,972	1	0.03	1.43
Foreign currency	1,158,841	240	0.02	18.02	1,126,865	23		(18.37)
Total	1,223,693	4,318	0.35	17.00	1,197,151	2,503	0.21	(17.00)
Debt issued								
Ch$	35,901	3,204	8.92	1.30	17,885	1,264	7.07	8.57
UF	1,578,506	216,361	13.71	5.74	1,565,522	26,032	1.66	3.09
Foreign currency	116,589	6,617	5.68	24.69	130,222	4,942	3.80	(15.28)
Total	1,730,996	226,182	13.07	6.93	1,713,629	32,238	1.88	1.75
Other financial obligations								
Ch$	29,578	400	1.35	(5.75)	41,019	848	2.07	3.50
UF	5,477	1,239	22.62	14.04	12,242			
Foreign currency	60,147	22,313	37.10	61.77	48,738	21,279	43.66	17.26
Total	95,202	23,952	25.16	38.05	101,999	22,127	21.69	9.66
Total interest bearing liabilities								
Ch$	4,606,128	342,283	7.43	(0.09)	4,284,799	150,741	3.52	4.97
UF	3,914,748	474,691	12.13	4.27	4,046,154	34,233	0.85	2.26
Foreign currency	2,562,723	76,107	2.97	21.50	2,525,201	47,054	1.86	(16.85)
Total	Ch$ 11,083,599	Ch$ 893,081	8.06%	6.44%	Ch$ 10,856,154	Ch$ 232,028	2.14%	(1.12%)

Table of Contents

	Year Ended December 31,							
	2008				2009			
	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate
	(in millions of Ch$, except percentages)							
IFRS:								
Liabilities								
Non interest bearing liabilities								
Current account and demand deposit								
Ch$	Ch$ 2,348,316	Ch$			Ch$ 2,665,304	Ch$		
UF	11,416				13,117			
Foreign currency	343,295				454,883			
Total	2,703,027				3,133,304			
Transaction in the course of payment								
Ch$	166,951				132,821			
UF								
Foreign currency	178,560				133,966			
Total	345,511				266,787			
Derivatives								
Ch$	695,031				610,155			
UF	2,903							
Foreign currency	51,962				61,940			
Total	749,896				672,095			
Current liabilities								
Ch$	11,624				15,401			
UF								
Foreign currency								
Total	11,624				15,401			
Deferred tax liabilities								
Ch$	42,928				37,291			
UF								
Foreign currency								
Total	42,928				37,291			
Provisions								
Ch$	68,674				64,697			
UF								
Foreign currency	1,498							
Total	70,172				64,697			

Other liabilities				
Ch$	172,864		108,883	
UF	16,192		568,572	
Foreign currency	24,678		5,367	
Total	213,734		682,822	
Equity				
Ch$	1,437,637		1,553,104	
UF				
Foreign currency	55,501		637	
Total	1,493,138		1,553,741	
Total non-interest bearing liabilities and equity				
Ch$	4,944,025		5,187,656	
UF	30,511		581,689	
Foreign currency	655,494		656,793	
Total	Ch$ 5,630,030		Ch$ 6,426,138	
Total liabilities and equity				
Ch$	9,550,153	342,283	9,472,455	150,741
UF	3,945,259	474,691	4,627,843	34,233
Foreign currency	3,218,217	76,107	3,181,994	47,054
Total	Ch$ 16,713,629	Ch$ 893,081	Ch$ 17,282,292	Ch$ 232,028

Table of Contents

Interest Earning Assets and Net Interest Margin

The following table sets forth, by currency of denomination, the levels of our average interest earning assets and net interest, and illustrates the comparative margins obtained, for each of the periods indicated.

	Year Ended December 31, 2008	2009
	(in millions of Ch$, except percentages)	
IFRS:		
Total average interest earning assets		
Ch$	Ch$ 6,686,853	Ch$ 7,087,478
UF	6,068,860	6,287,530
Foreign currency	2,250,154	2,085,772
Total	15,005,867	15,460,780
Net interest earned(1)		
Ch$	435,544	538,345
UF	349,840	106,940
Foreign currency	24,495	24,666
Total	Ch$ 809,879	Ch$ 669,951
Net interest margin, nominal basis(2)		
Ch$	6.51%	7.60%
UF	5.76	1.70
Foreign currency	1.09	1.18
Total	5.40%	4.33%

(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.

63

Table of Contents

Changes in Net Interest Income Volume and Rate Analysis

The following tables compare, by currency of denomination, changes in our net interest income between 2008 and 2009 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 have been 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.

	Increase (Decrease) from 2008 to 2009 due to changes in		Net change from 2008 to 2009
	Volume	Rate	
	(in millions of Ch$)		
IFRS:			
Assets			
Interest earning assets			
Cash and due from banks			
Ch$	Ch$ 43	Ch$ (417)	Ch$ (374)
UF			
Foreign currency	(210)	(2,614)	(2,824)
Total	(167)	(3,031)	(3,198)
Financial investments			
Ch$	(2,627)	(31,230)	(33,857)
UF	18,322	(48,989)	(30,667)
Foreign currency	(293)	2,648	2,355
Total	15,402	(77,571)	(62,169)
Loans in advance to banks			
Ch$	3,532	(13,395)	(9,863)
UF			
Foreign currency			
Total	3,532	(13,395)	(9,863)
Commercial loans			
Ch$	31,564	(77,792)	(46,228)
UF	(38,133)	(366,950)	(405,083)
Foreign currency	(6,420)	(21,966)	(28,386)
Total	(12,989)	(466,708)	(479,697)
Consumer loans			
Ch$	3,620	1,407	5,027
UF	838	(4,784)	(3,946)
Foreign currency			
Total	4,458	(3,377)	1,081

Residential mortgage loans			
Ch$			
UF	24,520	(268,182)	(243,662)
Foreign currency			
Total	24,520	(268,182)	(243,662)
Repurchase agreement			
Ch$	(3,106)	(340)	(3,446)
UF			
Foreign currency	(12)	(15)	(27)
Total	(3,118)	(355)	(3,473)
Total interest earning assets			
Ch$	33,026	(121,767)	(88,741)
UF	5,547	(688,905)	(683,358)
Foreign currency	(6,935)	(21,947)	(28,882)
Total	Ch$ 31,638	Ch$ (832,619)	Ch$ (800,981)

Table of Contents

	Increase (Decrease) from 2008 to 2009 due to changes in Volume	Rate (in millions of Ch$)	Net change from 2008 to 2009
IFRS:			
Liabilities			
Interest bearing liabilities			
Savings accounts and time deposits			
Ch$	Ch$ (12,251)	Ch$ (155,765)	Ch$ (168,016)
UF	12,447	(261,964)	(249,517)
Foreign currency	909	(24,731)	(23,822)
Total	1,105	(442,460)	(441,355)
Repurchase agreements			
Ch$	(7,851)	(12,627)	(20,478)
UF	655	14	669
Foreign currency	(1,322)	(983)	(2,305)
Total	(8,518)	(13,596)	(22,114)
Borrowing from financial institutions			
Ch$	884	(2,440)	(1,556)
UF	(19)	(23)	(42)
Foreign currency	(6)	(211)	(217)
Total	859	(2,674)	(1,815)
Debt issued			
Ch$	(1,371)	(569)	(1,940)
UF	(1,765)	(188,564)	(190,329)
Foreign currency	707	(2,382)	(1,675)
Total	(2,429)	(191,515)	(193,944)
Other financial obligation			
Ch$	189	259	448
UF	685	(1,924)	(1,239)
Foreign currency	(4,620)	3,586	(1,034)
Total	(3,746)	1,921	(1,825)
Total interest bearing liabilities			
Ch$	(20,400)	(171,142)	(191,542)
UF	12,003	(452,461)	(440,458)
Foreign currency	(4,332)	(24,721)	(29,053)
Total	Ch$ (12,729)	Ch$ (648,324)	Ch$ (661,053)

Table of Contents

Financial Investments

(a) Financial assets held-for-trading:

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

	As of January 1,	As of December 31,		Weighted Average Nominal Rate as of December 31,
	2008	2008	2009	2009
		(in millions of Ch$)		%
IFRS:				
Instruments issued by the Chilean Government and the Central Bank:				
Central Bank bonds	Ch$ 140,057	Ch$ 217,317	Ch$ 62,477	3.38%
Central Bank promissory notes	161,991	7,091	2,621	2.81
Other instruments issued by the Chilean Government and the Central Bank	687	80,085	96,996	4.02
Other instruments issued in Chile:				
Deposit promissory notes from domestic banks	401,740			
Mortgage bonds from domestic banks	54,243	4,527	2,556	3.92
Bonds from domestic banks	17,679	11,883	2,732	3.72
Deposits in domestic banks		259,562	182,995	3.72
Bonds from other Chilean companies	104,354	5,488		
Other instruments issued in Chile	1,227	332	1,213	
Instruments issued by foreign institutions:				
Instruments from foreign governments or central banks	24,411			
Other instruments issued abroad	22,245	40,579		
Total	Ch$ 928,634	Ch$ 626,864	Ch$ 351,590	3.74%

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$48,727 million as of January 1, 2008, Ch$9,012 million as of December 31, 2008 and Ch$15,260 million as of December 31, 2009. Under the categories Other instruments issued in Chile and Instruments issued by foreign institutions are instruments sold under agreements to repurchase to customers and financial instruments, amounting to Ch$190,472 million as of January 1, 2008, Ch$243,592 million as of December 31, 2008 and Ch$183,135 million as of December 31, 2009.

Table of Contents

(b) Investment Portfolio:

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

(i) Financial assets available-for-sale

	As of January 1, 2008	As of December 31, 2008	As of December 31, 2009	Weighted average nominal rate as of December 31, 2009
		(in millions of Ch$)		%
IFRS:				
Instruments issued by the Chilean Government and the Central Bank:				
Bonds issued by the Chilean Government and the Central Bank	Ch$	Ch$ 178,388	Ch$ 25,880	2.29%
Promissory notes issued by the Chilean Government and the Central Bank		203,577	285,486	5.91
Other instruments		41,716	136,923	2.29
Other instruments issued in Chile:				
Equity instruments valued at cost	1,062	2,114	2,112	
Deposit promissory notes from domestic banks				
Mortgage bonds from domestic banks		63,696	79,220	4.39
Bonds from domestic banks		66,265	55,111	4.31
Deposits from domestic banks		368,341	407,432	1.16
Bonds from other Chilean companies		46,569	73,174	4.84
Instruments issued by Foreign Institutions:				
Instruments from foreign governments or central banks				
Other instruments issued abroad		102,886	202,436	6.61
Total	Ch$ 1,062	Ch$ 1,073,552	Ch$ 1,267,774	3.79%

The portfolio of financial assets available-for-sale included a net unrealized loss of Ch$14,352 million as of December 31, 2008 and a net unrealized gain of Ch$8,839 million as of December 31, 2009, in each case recorded in other comprehensive income within equity.

(ii) Financial assets held-to-maturity

In anticipation of the sale of our foreign branches to Citigroup as part of the merger with Citibank Chile, our foreign branches liquidated their positions during the last quarter of 2007. As a result, there are no securities reported under this category as of December 31, 2008 and December 31, 2009.

Table of Contents

(c) Maturity of Financial Investments:

The maturities of financial assets held-for-trading and financial assets available-for-sale, as of December 31, 2009 were as follows:

	As of December 31, 2009 (in millions of Ch$)				
	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 6 years	Due after 6 years	Total
IFRS:					
Financial assets held-for-trading [1]	Ch$ 351,590	Ch$	Ch$	Ch$	Ch$ 351,590
Financial assets available-for-sale	715,030	114,492	137,354	300,898	1,267,774
Total	Ch$ 1,066,620	Ch$ 114,492	Ch$ 137,354	Ch$ 300,898	Ch$ 1,619,364

(1) Financial assets held-for-trading are classified as due in one year or less, because they are bought and held principally for the purpose of selling in the short term.

Loan Portfolio

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

	As of January 1, 2008	As of December 31, 2008	As of December 31, 2009
	(in millions of Ch$)		
IFRS:			
Commercial loans:			
Commercial loans	Ch$ 4,957,598	Ch$ 6,495,383	Ch$ 6,693,165
Foreign trade loans	856,545	1,532,302	786,874
Current account debtors	265,061	193,031	135,402
Factoring transactions	470,183	484,189	343,057
Commercial lease transactions	652,503	723,857	696,040
Other loans and accounts receivable	18,534	30,451	66,638
Subtotal	7,220,424	9,459,213	8,721,176
Mortgage loans:			
Mortgage bonds	276,686	263,876	208,971
Endorsable mortgage loans	217,877	230,003	238,875
Other residential real state mortgage loans	1,482,601	1,822,185	2,078,099
Residential lease transactions			
Other loans and accounts receivable	1,032	1,012	1,061
Subtotal	1,978,196	2,317,076	2,527,006
Consumer loans:			
Consumer loans in installments	919,092	1,345,985	1,346,188
Current account debtors	214,931	250,158	235,366

Credit card debtors	220,438	312,109	360,880
Consumer lease transactions	61	54	
Other loans and accounts receivable	1,085	977	640
Subtotal	1,355,607	1,909,283	1,943,074
Total loans	Ch$ 10,554,227	Ch$ 13,685,572	Ch$ 13,191,256

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.

Table of Contents

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.

Maturity and Interest Rate Sensitivity of Loans as of December 31, 2009

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2009:

	Balance as of December 31, 2009	Due within 1 month	Due after 1 month but within 6 months	Due after 6 months but within 12 months (in millions of Ch$)	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years
IFRS:							
Commercial loans:							
Commercial loans	Ch$ 6,693,165	Ch$ 607,021	Ch$ 1,535,927	Ch$ 1,035,593	Ch$ 1,510,902	Ch$ 872,605	Ch$ 1,131,117
Foreign trade loans	786,874	186,593	420,201	51,009	72,640	44,238	12,193
Current account debtors	135,402	135,402					
Factoring loans	343,057	226,703	62,406	21,684	28,665	3,460	139
Leasing loans	696,040	23,587	89,501	91,288	241,764	112,165	137,735
Other loans	66,638	57,869	1,944	197	404	6,217	7
Subtotal	8,721,176	1,237,175	2,109,979	1,199,771	1,854,375	1,038,685	1,281,191
Mortgage Loans:							
Mortgage bonds	208,971	3,769	10,139	12,388	46,946	42,720	93,009
Endorsable mortgage loans	238,875	3,302	9,317	10,131	40,614	39,772	135,739
Residential mortgage loans	2,078,099	17,355	43,751	53,469	221,920	232,179	1,509,425
Leasing loans							
Other loans	1,061	365	44	52	185	111	304
Subtotal	2,527,006	24,791	63,251	76,040	309,665	314,782	1,738,477
Consumer loans:							
Consumer loans	1,346,188	68,970	235,198	238,973	632,163	160,380	10,504
Current account debtors	235,366	235,366					
Credit card	360,880	342,239	14,709			3,932	
Leasing loans							
Other loans	640	640					
Subtotal	1,943,074	647,215	249,907	238,973	632,163	164,312	10,504
Total loans	Ch$ 13,191,256	Ch$ 1,909,181	Ch$ 2,423,137	Ch$ 1,514,784	Ch$ 2,796,203	Ch$ 1,517,779	Ch$ 3,030,172

69

Table of Contents

The following table sets forth the interest rate sensitivity of our outstanding loans due after one year as of December 31, 2009:

		As of December 31, 2009 (in millions of Ch$)
IFRS:		
Variable rate		
Ch$	Ch$	635,919
UF		602,321
Foreign currency		236,221
Total		1,474,461
Fixed rate		
Ch$		1,600,180
UF		4,166,795
Foreign currency		102,718
Total		5,869,693
Total	Ch$	7,344,154

70

Table of Contents

Loans by Economic Activity

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

	As of January 1, 2008		As of December 31, 2008		2009	
	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio
	(in millions of Ch$, except percentages)					
IFRS:						
Agriculture, Livestock, Forestry, Agribusiness, Fishing:						
Agriculture and livestock	Ch$ 207,253	1.96%	Ch$ 280,506	2.05%	Ch$ 296,178	2.25%
Fruit	192,725	1.83	251,199	1.84	237,689	1.80
Forestry and wood extraction	15,381	0.15	17,891	0.13	15,310	0.12
Fishing	75,995	0.72	164,905	1.20	98,969	0.75
Subtotal	491,354	4.66	714,501	5.22	648,146	4.92
Mining and Petroleum:						
Mining and quarries	36,633	0.35	201,631	1.47	65,703	0.50
Natural gas and crude oil extraction	199	0.00	8,408	0.06	108,749	0.82
Subtotal	36,832	0.35	210,039	1.53	174,452	1.32
Manufacturing:						
Tobacco, food and beverages	188,729	1.79	257,100	1.88	186,901	1.42
Textiles, clothing and leather goods	109,799	1.04	139,503	1.02	102,303	0.78
Wood and wood products	72,784	0.69	70,323	0.51	50,526	0.38
Paper, printing and publishing	48,982	0.46	47,901	0.35	45,716	0.35
Oil refining, carbon and rubber	126,536	1.20	162,043	1.18	141,845	1.08
Production of basic metal, non-mineral, machine and equipment	278,791	2.64	403,196	2.95	225,538	1.71
Other manufacturing industries	66,362	0.63	82,332	0.60	69,925	0.53
Subtotal	891,983	8.45	1,162,398	8.49	822,754	6.25
Electricity, Gas and Water:						
Electricity, gas and water	92,433	0.88	207,734	1.52	164,529	1.25
Subtotal	92,433	0.88	207,734	1.52	164,529	1.25
Construction:						
Residential buildings	292,709	2.77	336,952	2.46	316,047	2.40
Other constructions	576,900	5.47	626,682	4.58	728,358	5.52
Subtotal	869,609	8.24	963,634	7.04	1,044,405	7.92
Commerce:						
Wholesale	385,460	3.65	601,745	4.40	484,577	3.67
Retail, restaurants and hotels	623,560	5.91	837,112	6.12	760,114	5.76

Subtotal	1,009,020	9.56	1,438,857	10.52	1,244,691	9.43
Transport, Storage and Communications:						
Transport and storage	237,564	2.25	266,888	1.95	267,267	2.03
Communications	76,994	0.73	97,495	0.71	112,799	0.86
Subtotal	314,558	2.98	364,383	2.66	380,066	2.89
Financial Services:						
Financial and insurance companies	942,295	8.93	1,165,403	8.53	1,247,359	9.43
Holding companies and other financial services	991,683	9.40	1,123,834	8.21	1,192,900	9.04
Subtotal	1,933,978	18.33	2,289,237	16.74	2,440,259	18.47
Community, Social and Personal Services:						
Community, social and personal services	1,580,657	14.98	2,108,430	15.40	1,801,874	13.66
Subtotal	1,580,657	14.98	2,108,430	15.40	1,801,874	13.66
Consumer Loans	1,355,607	12.83	1,909,283	13.95	1,943,074	14.73
Residential Mortgage Loans	1,978,196	18.74	2,317,076	16.93	2,527,006	19.16
Total	Ch$ 10,554,227	100.00%	Ch$ 13,685,572	100.00%	Ch$ 13,191,256	100.00%

Table of Contents

Foreign Country Outstanding Loans

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

	As of January 1, 2008	As of December 31, 2008	2009
		(in millions of Ch$)	
IFRS:			
Argentina	Ch$ 100	Ch$ 4,481	Ch$ 3,578
Austria	731	391	
Belgium	910	870	
Brazil	28,184	62,438	191,177
Canada	143	3,805	40
China	51,338	29,000	76,146
Colombia	105	7,621	2,218
Czech Republic	31	38	
Denmark	234		
El Salvador	59	48	22
Finland	49	321	
France	2,803	12,908	177
Germany	7,339	26,291	285
Holland	9,695	718	
Hong Kong	80	13	1,312
India	26,523	25,222	31,387
Israel	806	777	
Italy	1,194	3,408	
Japan	5,876	2,426	161
Mexico	2,216	63	14,184
New Zealand	50		59
Oman	59		
Panama	243	309	
Perú	6,934	8,709	4,615
Portugal		443	
South Africa	6,682	1	
South Korea	46,780	14,019	21,186
Spain	36	111	
Switzerland	55	16	
Sweden	2,663	174	
Taiwan	4,312	13	1,019
United Arab Emirates		68	
United Kingdom	20,053	20,848	15,236
United States	7,250	3,072	226
Uruguay	1,221	1,106	534
Venezuela	4,996	6,395	2,573
Total	Ch$ 239,750	Ch$ 236,123	Ch$ 366,135

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:

	As of January 1,	As of December 31,	
	2008	2008	2009
		(in millions of Ch$)	
IFRS:			
Australia	Ch$ 76	Ch$ 115	Ch$ 149
Austria	134	148	128
Belgium	334	438	790
Canada	425	809	1,256
China	18	19	70
Denmark	37	67	11
Finland	172	107	296
France	444	163	543
Germany	4,598	11,813	11,163
Holland		23	1,123
Italy	3,035	606	1,067
Japan	1,898	42,807	7,189
Mexico			19
Netherlands	119		
Norway	84	6	20
Russia	27	299	63
Spain	946	787	761
Sweden	106	85	36
Switzerland	399	453	435
United Kingdom	1,185	7,475	2,392
United States	18,469	213,021	221,466
Total	Ch$ 32,506	Ch$ 279,241	Ch$ 248,977

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 the Board of Directors, in order to ensure that the Bank has an appropriate capital base for potential losses that may arise from its 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.

(a) 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.

The Bank has also developed a broad level of knowledge regarding selection of customers, with a significant capacity to discriminate between subjects 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 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 independent persons.

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

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

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

Transactions in which the total customer credit risk is more than UF 750,000 (approximately Ch$15,707 million) require approval by a credit committee, which includes three directors and our Chief Executive Officer. Transactions in which the total customer credit risk is equal to or less than UF 750,000 may be approved by other executives, depending on the amount involved, as follows:

Approved by	**Limit in UF**
Credit committee, including members of the board of directors	up to legal limits
Chief executive officer, chairman and senior credit risk officer	up to UF 750,000
Chief executive officer, chairman or senior credit risk officer (any two of the three)	up to UF 500,000
Chief executive officer and executive credit risk officers	up to UF 350,000
Senior credit risk officers and executive vice president of corporate banking	up to UF 350,000
Executive credit risk officers and Executive vice president of corporate baking	up to UF 140,000
Other credit risk officers	up to UF 50,000
Executive vice president of corporate banking	up to UF 50,000
Other department heads	up to UF 20,000
Other officers	up to UF 10,000

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.

(b) 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.

Table of Contents

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 in relevant sectors of activity, defining case-by-case actions plans.

Constant monitoring system in order to detect early on 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 of 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 collections processes and policies to better integrate loan approval and monitoring processes, aligned behind a single vision of customer credit fundamentals.

Table of Contents

Analysis of Our Loan Classification

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

IFRS:

	As of January 1, 2008				
Bank s Credit Rating	**Commercial Loans**	**Residential Mortgage Loans**	**Consumer Loans**	**Total Loans**	**Percentage of Classified Loans**
	(in millions of Ch$, except percentages)				
A1	Ch$ 89,268	Ch$	Ch$	Ch$ 89,268	1.28%
A2	2,329,422			2,329,422	33.06
A3	2,004,825			2,004,825	28.45
B	2,352,005			2,352,005	33.38
C1	167,196			167,196	2.37
C2	52,239			52,239	0.74
C3	10,047			10,047	0.14
C4	17,912			17,912	0.25
D1	8,577			8,577	0.12
D2	15,217			15,217	0.21
Impaired Portfolio					
Total individual classified loans	Ch$ 7,046,708	Ch$	Ch$	Ch$ 7,046,708	100.00%
Total group non-classified loans	173,716	1,978,196	1,355,607	3,507,519	
Total loans	Ch$ 7,220,424	Ch$ 1,978,196	Ch$ 1,355,607	Ch$ 10,554,227	
Percentage Classified	97.59%			66.77%	

IFRS:

	As of December 31, 2008				
Bank s Credit Rating	**Commercial Loans**	**Residential Mortgage Loans**	**Consumer Loans**	**Total Loans**	**Percentage of Classified Loans**
	(in millions of Ch$, except percentages)				
A1	Ch$ 287,220	Ch$	Ch$	Ch$ 287,220	3.29%
A2	2,454,840			2,454,840	27.19
A3	2,375,691			2,375,691	26.32
B	3,625,075			3,625,075	40.16
C1	171,896			171,896	1.90
C2	102,047			102,047	1.14
Impaired Portfolio					
Total individual classified loans	Ch$ 9,016,769	Ch$	Ch$	Ch$ 9,016,769	100.00%
Total group non-classified loans	442,444	2,317,076	1,909,283	4,668,803	

Total loans	Ch$ 9,459,213	Ch$ 2,317,076	Ch$ 1,909,283	Ch$ 13,685,572
Percentage Classified	95.32%			65.89%

Table of Contents

IFRS:

Bank s Credit Rating	Commercial Loans	Residential Mortgage Loans	Consumer Loans	Total Loans	Percentage of Classified Loans
	As of December 31, 2009 (in millions of Ch$, except percentages)				
A1	Ch$ 32,067	Ch$	Ch$	Ch$ 32,067	0.37%
A2	2,290,427			2,290,427	26.60
A3	2,074,847			2,074,847	24.10
B	3,446,251			3,446,251	40.03
C1	136,957			136,957	1.59
C2	6,195			6,195	0.07
Impaired Portfolio	418,057	68,787	135,675	622,519	7.24
Total individual classified loans	Ch$ 8,404,801	Ch$ 68,787	Ch$ 135,675	Ch$ 8,609,263	100.00%
Total group non-classified loans	316,375	2,458,219	1,807,399	4,581,993	
Total loans	Ch$ 8,721,176	Ch$ 2,527,006	Ch$ 1,943,074	Ch$ 13,191,256	
Percentage Classified	96.37%	2.72%	6.98%	65.26%	

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		
	As of January 1,	As of December 31,	
	2008	2008	2009
	(in millions of Ch$)		
IFRS:			
Current	Ch$ 10,169,095	Ch$ 13,067,796	Ch$ 12,463,973
Overdue 1-29 days	68,210	88,985	46,764
Overdue 30-89 days	15,845	41,642	25,945
Overdue 90 days or more (past due)	61,327	251,026	288,439
Total loans	Ch$ 10,314,477	Ch$ 13,449,449	Ch$ 12,825,121

	Foreign Loans		
	As of January 1,	As of December 31,	
	2008	2008	2009
	(in millions of Ch$)		
IFRS:			
Current	Ch$ 239,750	Ch$ 236,123	Ch$ 366,135
Overdue 1-29 days			
Overdue 30-89 days			
Overdue 90 days or more (past due)			
Total loans	Ch$ 239,750	Ch$ 236,123	Ch$ 366,135

	Total Loans		
	As of January 1,	As of December 31,	
	2008	2008	2009
	(in millions of Ch, except percentages)		
IFRS:			
Current	Ch$ 10,408,845	Ch$ 13,303,919	Ch$ 12,830,108
Overdue 1-29 days	68,210	88,985	46,764
Overdue 30-89 days	15,845	41,642	25,945
Overdue 90 days or more (past due)	61,327	251,026	288,439
Total loans	Ch$ 10,554,227	Ch$ 13,685,572	Ch$ 13,191,256
Overdue loans expressed as a percentage of total loans	1.38%	2.79%	2.74%
Past-due loans as a percentage of total loans	0.58%	1.83%	2.19%

Table of Contents

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

	As of December 31, 2008	2009
	(in millions of Ch$)	
IFRS:		
Ch$	Ch$ 4,583	Ch$ 4,283
UF	32	128
Total	Ch$ 4,615	Ch$ 4,411

The amount of interest that we would have recorded on these loans for the year ended December 31, 2009 if these loans had been earning a market interest rate was Ch$248 million.

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

	As of January 1, 2008	As of December 31, 2008	2009
	(in millions of Ch$)		
IFRS:			
Total other restructured loans	Ch$ 80,233	Ch$ 134,519	Ch$ 357,345

During the year ended December 31, 2009, interest recorded in income on these loans amounted to Ch$39,636 million.

Analysis of Substandard Loans and Amounts Past Due

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

	As of January 1, 2008	Year ended December 31, 2008	2009
	(in millions of Ch$, except percentages)		
IFRS:			
Total loans	Ch$ 10,554,227	Ch$ 13,685,572	Ch$ 13,191,256
Substandard loans[1]	387,390	679,323	765,671
Substandard loans as a percentage of total loans	3.67%	4.96%	5.80%
Amounts past due [2]			
To the extent secured [3]	Ch$ 35,666	Ch$ 31,054	Ch$ 25,881
To the extent unsecured	25,661	50,896	63,647
Total amount past due	Ch$ 61,327	Ch$ 81,950	Ch$ 89,528
Amounts past due as a percentage of total loans	0.58%	0.60%	0.68%
To the extent secured[2]	0.34	0.23	0.20
To the extent unsecured	0.24	0.37	0.48
Allowances for loans losses as a percentage of:			

Total loans	1.23	1.64	2.37
Total amounts past due	211.39	274.69	348.61
Total amounts past due unsecured	505.21%	442.28%	490.36%

(1) 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%.
(2) In accordance with Chilean regulations, past-due loans are loans that are 90 days or more overdue on any payments of principal or interest.
(3) Security generally consists of mortgages on real estate, pledges of marketable securities, letters of credit or cash.

Table of Contents

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, 2008	2009
	(in millions of Ch$, except percentages)	
IFRS:		
Allowances for loan losses at beginning of period	Ch$ 129,624	Ch$ 225,108
Balance of allowances for loan losses from Citibank Chile S.A.[1]	20,883	
Charge-offs	(112,989)	(181,793)
Allowances established	187,864	270,305
Allowances released[2]	(274)	(1,519)
Allowances for loan losses at end of period	Ch$ 225,108	Ch$ 312,101
Ratio of charge-offs to average loans	0.90%	1.42%
Allowances for loan losses at end of period as a percentage of total loans	1.64%	2.37%

(1) Total allowances for loan losses corresponding to Citibank Chile after the merger with Banco de Chile as of January 1, 2008.

(2) 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.

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 Chilean salmon industry, were hit by productive difficulties during 2009, thus weakening their ability to make payments. These factors prompted a significant increase in our allowances for loan losses in 2008 and 2009.

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, 2008	2009
	(in millions of Ch$)	
IFRS:		

Commercial loans	Ch$ 33,551	Ch$ 86,030
Mortgage loans	2,820	2,088
Consumer loans	76,618	93,675
Total	Ch$ 112,989	Ch$ 181,793

Table of Contents

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

	Year ended December 31, 2008	2009
	(in millions of Ch$)	
IFRS:		
Commercial loans	Ch$ 16,375	Ch$ 23,934
Mortgage loans	3,390	2,653
Consumer loans	19,605	232
Subtotal	39,370	26,819
Recoveries and sales of loans reacquired from the Central Bank	278	60
Total	Ch$ 39,648	Ch$ 26,879

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 January 1, 2008				As of December 31, 2008			
	Allowance amount	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans(1)	Allowance amount	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans(1)
	(in millions of Ch$, except percentages)							
IFRS:								
Commercial loans	Ch$ 72,123	0.99%	0.68%	68.41%	Ch$ 116,153	1.23%	0.84%	69.12%
Consumer loans	49,116	3.62	0.47	12.84	95,680	5.01	0.70	13.95
Residential mortgage loans	8,385	0.42	0.08	18.75	13,275	0.57	0.10	16.93
Total allocated allowances	Ch$ 129,624	1.23%	1.23%	100.00%	Ch$ 225,108	1.64%	1.64%	100.00%

	As of December 31, 2009			
	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$, except percentages)			
IFRS:				
Commercial loans	Ch$ 189,610	2.17%	1.44%	66.11%
Consumer loans	108,592	5.59	0.82	14.73
Residential mortgage loans	13,899	0.55	0.11	19.16
Total allocated allowances	Ch$ 312,101	2.37%	2.37%	100.00%

(1) Based on our loan classification.

Table of Contents

The following table sets forth our charge-offs for 2008 and 2009 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, 2008	2009
	(in millions of Ch$)	
IFRS:		
Commercial:		
Agriculture	Ch$ 2,077	Ch$ 4,950
Mining	43	284
Manufacturing	3,221	9,900
Construction	2,475	7,766
Commerce	12,055	26,501
Transport	1,155	4,867
Financial services	3,978	11,619
Community	8,547	20,143
Subtotal:	Ch$ 33,551	Ch$ 86,030
Consumer loans	76,618	93,675
Mortgage loans	2,820	2,088
Total	Ch$ 112,989	Ch$ 181,793

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 January 1, 2008	As of December 31, 2008	2009
		(in millions of Ch$)	
IFRS:			
Current accounts	Ch$ 1,844,164	Ch$ 2,534,753	Ch$ 3,127,934
Other demand deposits	441,193	472,508	590,142
Savings accounts	139,127	157,270	158,035
Time deposits	6,249,999	8,309,720	7,264,809
Other term balance payables	3,987	5,600	4,637
Total	Ch$ 8,678,470	Ch$ 11,479,851	Ch$ 11,145,557

Maturity of Deposits

The following table sets forth under IFRS information regarding the currency and maturity of our deposits at December 31, 2009, 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 variations in the Consumer Price Index.

	Ch$	UF	Foreign Currency	Total
IFRS:				
Demand deposits	45.77%	0.72%	24.50%	33.35%
Savings accounts		6.98		1.42
Time deposits:				
Maturing within three months	45.59	22.39	59.82	43.06
Maturing after three but within six months	3.75	22.49	8.07	8.22
Maturing after six but within 12 months	3.09	44.44	7.56	12.18
Maturing after 12 months	1.80	2.98	0.05	1.77
Total time deposits	54.23	92.30	75.50	65.23
Total deposits	100.00%	100.00%	100.00%	100.00%

Table of Contents

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, 2009:

	Ch$	UF	Foreign Currency	Total
		(in millions of Ch$)		
IFRS:				
Time deposits:				
Maturing within three months	Ch$ 2,607,398	Ch$ 465,321	Ch$ 883,359	Ch$ 3,956,078
Maturing after three but within six months	265,788	501,990	136,039	903,817
Maturing after six but within 12 months	217,569	999,882	128,782	1,346,233
Maturing after 12 months	128,095	67,229	691	196,015
Total time deposits	Ch$ 3,218,850	Ch$ 2,034,422	Ch$ 1,148,871	Ch$ 6,402,143

Minimum Capital Requirements

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

	As of January 1, 2008	As of December 31, 2008	2009
		(in millions of Ch$)	
CHILEAN GAAP:			
Banco de Chile s regulatory capital	Ch$ 809,105	Ch$ 1,297,735	Ch$ 1,392,745
Minimum regulatory capital required	(441,346)	(593,849)	(570,054)
Excess over minimum regulatory capital required	Ch$ 367,759	Ch$ 703,886	Ch$ 822,691

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 as of January 1, 2008 and at the end of each period indicated and the weighted average nominal interest rate for each period indicated and as of January 1, 2008 by type of short-term borrowing.

	As of January 1, 2008		For the year ended December 31, 2008		2009	
	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$, except rate data)			
IFRS:						
Payables from repurchase agreements and security lending	Ch$ 355,183	6.31%	Ch$ 420,658	6.13%	Ch$ 308,028	3.48%
	73,948	4.40	2,598	0.08	3,878	3.73

Borrowings from domestic financial institutions						
Foreign borrowings	782,868	4.15	1,495,644	2.76	1,209,144	1.32
Other obligations	58,171	0.00	48,000	0.00	129,740	0.00
Total short-term borrowings	Ch$ 1,270,170	5.00%	Ch$ 1,966,900	3.41%	Ch$ 1,650,790	1.62%

Table of Contents

The following table shows the average balance and the weighted average nominal rate for each short-term borrowing category as of January 1, 2008 and during the periods indicated:

	As of January 1, 2008		For the year ended December 31, 2008		2009	
	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$, except rate data)			
IFRS:						
Payables from repurchase agreements and security lending	Ch$ 313,031	5.93%	Ch$ 439,345	6.48%	Ch$ 275,058	2.31%
Central Bank borrowings	649	1.38	432	1.91	53,548	0.85
Borrowings from domestic financial institutions	225,834	1.77	267,075	0.54	54,446	0.09
Sub-total	Ch$ 539,514	4.19%	Ch$ 706,852	4.23%	Ch$ 383,052	1.79%
Foreign borrowings	625,442	0.74	1,157,045	0.25	1,090,925	0.18
Total short-term borrowings	Ch$ 1,164,956	2.34%	Ch$ 1,863,897	1.76%	Ch$ 1,473,977	0.60%

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

	Maximum 2008 month-end balance	Maximum 2009 month-end balance
	(in millions of Ch$)	
IFRS:		
Investments sold under agreements to repurchase	Ch$ 661,858	Ch$ 381,522
Central Bank borrowings	682	237,243
Borrowings from domestic financial institutions	168,206	145,697
Foreign borrowings	Ch$ 1,585,313	Ch$ 1,209,144

Item 4A. Unresolved Staff Comments

None.

Table of Contents

Item 5. Operating and Financial Review and Prospects

OPERATING RESULTS

Introduction

The following discussion should be read together with our audited consolidated financial statements and the section titled 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 International Financial Reporting Standards as issued by the International Accounting Standards Board.

Until December 31, 2008, the Bank s audited consolidated financial statements were prepared in accordance with Chilean GAAP. The audited consolidated financial statements for 2008 presented in this annual report, previously presented in accordance with Chilean GAAP, were adjusted to comply with IFRS, as required by IFRS 1 *First Time Adoption of International Financial Reporting Standards* only for comparative purposes. Reconciliations and description of the transition to IFRS, and the effects on the Bank s equity and net income are presented in Note 5 to our audited consolidated financial statements.

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 and results of operations are largely dependent upon economic and political factors affecting Chile, as well as changes in interest rates and inflation. 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 3.6% between 2000 and 2009. In 2009, Chile s GDP shrank by 1.5%, following an increase of 3.2% in 2008. The reduction in Chile s GDP during 2009 is in line with the world economy s contraction that led to decreases in the levels of consumption and investment, as well as an increase in unemployment indicators. However, Chile has maintained a relatively stable financial condition as a result of earlier accumulation of international reserves and fiscal restraint.

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 important Chilean economic indicators, such as exports, employment, consumption and investment, thereby reducing purchasing power and leading to a weaker aggregate demand. However, in early 2010 and consistently with the recovery trend shown by the Chilean economy during the last quarter of 2009, inflation started to return to normal levels.

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 Consumer Price Index. One UF was equal to Ch$21,452.57 at December 31, 2008 and Ch$20,942.88 (U.S.$41.35) at December 31, 2009. 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 net interest income will be negatively affected by inflation (and positively affected by deflation) when average UF-denominated liabilities exceed average UF-denominated assets. Our average UF-denominated assets exceeded our average UF-denominated liabilities by Ch$2,162,452 million during the year ended December 31, 2008 and Ch$2,239,687 million (U.S.$ 4,422.50 million) during the year ended December 31, 2009. 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 51% during 2008 and 62% during 2009. Because 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 led the Central Bank to reduce the monetary policy interest rate to a historical low of 0.5% in order to ensure suitable liquidity levels to enhance aggregate demand.

Table of Contents

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.

The average annual short-term nominal interest rates, based on the rate paid by Chilean financial institutions for 90 to 360-day Chilean peso denominated deposits, were 5.38% in 2008 and 2.19% in 2009. The average annual long-term nominal interest rates, based on the interest rate of the Central Bank s five-year duration Chilean peso denominated bonds, were 6.89% in 2008 and 4.55% in 2009.

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 the foreign exchange position. The exchange rate variation over capital and reserves of our foreign branches, which were sold in January 2008, is adjusted against equity rather than against net income according to local accounting rules.

Critical Accounting Policies

We prepare our audited consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The notes to our audited consolidated financial statements, 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 the Bank because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect the Bank s results of operations.

As part of this process, the Bank first assesses 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 judgment and is regularly reviewed for adequacy. After this assessment, the Bank assesses 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 management judgment concerning such matters as 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 whether 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 whether 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, the Bank estimates 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. The Bank utilizes backtesting techniques in order to optimize its 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, the Bank performs a regular review of the models and 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. The Bank uses historical loss experience in these estimations. 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(l) to our audited consolidated financial statements.

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 associate, 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 the Bank makes its evaluation, the Bank 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, the Bank considers 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. The Bank uses 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 the Bank, 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 reasonably represent market expectations and include risk and return factors that are inherent to the financial instrument. Periodically, the Bank calibrates the valuation technique and tests it 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, management judgment is required. The level of management judgment required in establishing 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. 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 the Bank s fair value hierarchy these financial instruments are classified as level 3. As of December 31, 2009 this category mainly included financial assets available-for-sale with fixed income (other instruments issued in Chile and instruments issued by foreign institutions). 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 the Bank s internal fair value classification, see note 43 to our audited consolidated financial statements.

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.

Table of Contents

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, the Bank estimates 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 in the paragraph above.

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 Bank s nature of business from which it derives 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, the Bank considers 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. The Bank estimates and provides for potential losses that may arise from litigation, regulatory proceedings and uncertain income tax positions to the extent that such losses are probable 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 the Bank s 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.

The Bank s 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, the Bank s experience and the experience of others in similar cases, and the opinions and views of legal counsel. Predicting the outcome of the Bank s litigation matters is inherently difficult, particularly in cases in which claimants seek substantial or indeterminate damages.

Results of Operations for the Years Ended December 31, 2008 and 2009

The following section discusses the results of operations for the years ended December 31, 2008 and 2009. To the extent that it is available and is useful in analyzing our results, we have included information broken down by the business segments we use in internal reporting. We also present our results on a consolidated basis.

Table of Contents

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, 2008 and 2009:

	Year Ended December 31, 2008	2009	% Increase (Decrease) 2008/2009
	(in millions of Ch$, except percentages)		
IFRS:			
Net interest income	Ch$ 766,269	Ch$ 668,379	(12.8%)
Net fees and commissions income	235,189	251,216	6.8
Other income (loss), net	62,761	105,010	67.3
Provisions for loan losses	(149,374)	(241,345)	61.6
Operating expenses	(556,501)	(481,965)	(13.4)
Income attributable to associates	3,564	840	(76.4)
Income before income taxes	361,908	302,135	(16.5)
Income taxes	(35,313)	(40,389)	14.4
Net income on continued operations, net of taxes	326,595	261,746	(19.9)
Net income on discontinued operations, net of taxes	38,459		(100.0)
Net income	Ch$ 365,054	Ch$ 261,746	(28.3%)

2008 and 2009. The 28.3% decrease in net income in 2009 as compared to 2008 reflects the pressure that the global financial crisis exerted on the Chilean economy and the local banking system. The decrease in our net income is primarily attributable to (i) a 61.6% increase in provisions for loan losses, mainly as a result of the higher credit risk due to the economic downturn and the deterioration of the risk profile of certain economic sectors, such as the Chilean salmon industry, which faced productive difficulties related to the ISA virus, and (ii) a 12.8% decrease in net interest income as a result of a deflationary period that negatively impacted the contribution from our interest earning assets denominated in UF.

These negative factors were partially offset by a 6.8% increase in fees and commissions income as a result of a positive trend in the stock markets towards the end of 2009 that increased the number of transactions and volumes managed by our mutual funds and securities brokerage subsidiaries, as well as the fees and commissions income arising from traditional banking activity due to the development of the new product over-draft credit line. This new product allowed us to soften the impact of a new regulation imposed by the Chilean Superintendency of Banks that restricts the ability of banks to charge certain overdraft fees and which negatively affected the income arising from fees and commissions. In addition, our operating expenses significantly decreased by 13.4% in 2009, whereas other income (loss), net increased by 67.3%, primarily as a result of a net gain in foreign exchange transactions that more than offset the net financial operating loss.

Table of Contents

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, 2008 and 2009. This information is derived from the 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.

	Year Ended December 31, 2008	2009	% Increase (Decrease) 2008/2009
	(in millions of Ch$, except percentages)		
IFRS:			
Interest revenue	Ch$ 1,659,350	Ch$ 900,407	(45.7%)
Interest expense	(893,081)	(232,028)	(74.0)
Net interest income	Ch$ 766,269	Ch$ 668,379	(12.8%)
Net interest margin[1]	5.11%	4.32%	

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

2008 and 2009. Net interest income decreased by 12.8% from 2008 to 2009, primarily as a result of the decrease in our net interest margin as a result of lower economic activity, which more than offset the 3.0% increase in our average interest earning assets. The decrease in net interest margin was largely a result of the following:

a deflationary period experienced throughout 2009. The UF experienced a 2.4% drop during 2009 as compared to a 9.3% rise in 2008. As a result, we earned less interest revenue from our interest-earning assets denominated in UF and funded by interest-bearing liabilities denominated in Chilean pesos.

nominal interest rates that reached historical lows. Throughout 2009, the monetary policy interest rate averaged 1.7%, well below the average 7.1% in 2008. Accordingly, we obtained a lower contribution from non-interest bearing liabilities, such as demand deposits.

The above-mentioned factors were partially offset by higher average lending spreads and a more favorable funding structure as a result of a 23.6% annual increase experienced by current account and demand deposit volumes, which allowed us to obtain higher margins.

Interest Revenue

The following table sets forth information regarding our interest revenue and average interest earning assets for the years ended December 31, 2008 and 2009:

	Year Ended December 31, 2008	Year Ended December 31, 2009	% Increase (Decrease) 2008/2009
	(in millions of Ch$, except percentages)		
IFRS:			
Interest revenue	Ch$ 1,659,350	Ch$ 900,407	(45.7%)
Average interest earning assets:			
Commercial loans	8,606,424	8,538,745	(0.8)
Residential Mortgage Loans	2,167,810	2,359,746	8.9
Consumer Loans	1,848,520	1,872,098	1.3
Total Loans	12,622,754	12,770,589	1.2
Cash and due from banks	792,521	814,463	2.8
Repurchase agreement	52,086	42,755	(17.9)
Financial investments	1,379,863	1,628,270	18.0
Loans and Advance to Banks	158,643	204,703	29.0
Total	Ch$ 15,005,867	Ch$ 15,460,780	3.0%
Average rates earned on total interest earning assets(1):			
Average nominal rates	11.35%	5.83%	
Average real rates	7.47	4.56	

(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.

2008 and 2009. Interest revenue decreased by 45.7% from 2008 to 2009, primarily as a result of deflation during 2009, which caused the UF to decrease in value by 2.4%, and as a consequence of the low nominal interest rates recorded during 2009 as the Central Bank reduced the monetary policy interest rate to 0.5% towards the end of 2009 in order to foster higher household spending and investment. In addition, despite an 18.0% increase in our financial investments, our total interest-earning assets grew by only 3.0% in 2009, principally due to the lower growth rate of our total loans, which increased by only 1.2% in 2009. These positive effects were more than offset by the interest and inflation rate impacts described above.

Table of Contents

Interest Expense

The following table sets forth information regarding our interest expense and average interest bearing liabilities for the years ended December 31, 2008 and 2009:

	Year Ended December 31, 2008	2009	% Increase (Decrease) 2008/2009
	(in millions of Ch$, except percentages)		
IFRS:			
Interest expense	Ch$ 893,081	Ch$ 232,028	(74.0%)
Average interest-bearing liabilities:			
Saving accounts and time deposits(1)	7,594,363	7,568,317	(0.3)
Securities under agreements to repurchase	439,345	275,058	(37.4)
Borrowings from financial institutions	1,223,693	1,197,151	(2.2)
Debt issued	1,730,996	1,713,629	(1.0)
Other financial obligations	95,202	101,999	7.1
Total	Ch$ 11,083,599	Ch$ 10,856,154	(2.1%)
Average rates paid on total interest bearing liabilities(2):			
Average nominal rates	8.06%	2.14%	
Average real rates	6.44%	(1.12%)	
Average (Chilean peso-denominated) non-interest bearing current account and demand deposits	2,703,027	3,133,304	15.9%

(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.

2008 and 2009. Interest expense decreased by 74.0% from 2008 to 2009. This significant decrease was mainly due to the deflation observed during 2009, as well as the sharp decrease in nominal interest rates in 2009. To a lesser extent, the decrease in interest expense was a consequence of an improved funding structure, which resulted from the increase of non-interest bearing liabilities, especially current accounts and demand deposits, which jointly increased by 23.6% in 2009. In addition, average interest-bearing liabilities decreased 2.1% in 2009. The change in our funding structure was due to low nominal interest rates and deflation experienced during 2009, which led investors to prefer non-interest bearing instruments, such as current accounts, rather than interest-bearing instruments, such as savings accounts.

Table of Contents

Net Fees and Commissions Income

The following table sets forth certain components of our fees and commissions (net of fees paid to third parties that provide support for those services, principally fees relating to credit pre-evaluation services and receipts and collection services provided to us) for the years ended December 31, 2008 and 2009.

	Year Ended December 31, 2008	2009	% Increase (Decrease) 2008/2009
	(in millions of Ch$, except percentages)		
IFRS:			
Insurance	Ch$ 46,668	Ch$ 46,146	(1.1%)
Mutual funds	41,467	45,246	9.1
Current accounts and overdrafts	34,433	22,184	(35.6)
Credit cards	22,170	24,472	10.4
Sight accounts and ATMs	20,502	21,087	2.9
Collection of over-due loans	15,046	16,628	10.5
Cash management services	13,664	13,665	
Stock brokerage	8,838	12,572	42.2
Letters of credit, guarantees, collateral and other contingent loans	8,209	11,748	43.1
Credit lines	8,132	18,534	127.9
Financial advisory services	6,773	7,860	16.0
Foreign trade and currency exchange	4,310	5,073	17.7
Custody and trust services	5,221	4,417	(15.4)
Factoring	1,695	2,597	53.2
Collection services	1,553	1,622	4.4
Credits	805	1,315	63.4
Teller services expenses	(5,268)	(2,548)	(51.6)
Credit pre-evaluation services	(620)	(484)	(21.9)
Other	1,591	(918)	(157.7)
Total	Ch$ 235,189	Ch$ 251,216	6.8%

2008 and 2009. Net fees and commissions income increased by 6.8% from 2008 to 2009. This increase is principally due to the following:

an excellent performance of some of our subsidiaries during 2009. Banchile Securities Brokerage benefited from higher trading volumes in the stock market throughout the second semester of 2009, which allowed it to increase its fees and commissions income by 42.2% as compared to 2008. Similarly, our mutual funds subsidiary, Banchile Administradora General de Fondos, increased its fees and commissions by 9.1% in 2009 as compared to 2008, due to a 31% annual increase in average volume of assets under management as a result of low nominal interest rates that discouraged investors to take positions in fixed-income securities, as well as the creation of new mutual funds to meet investors needs. These trends were also observed to a lesser extent in fees and commission income from our financial advisory (which increased 16.0% in 2009), factoring (which increased 53.2% in 2009) and collection services (which increased 4.4% in 2009) subsidiaries.

the development of new products and services. During 2009, the Bank created the overdraft credit line agreement, which primarily prompted a 127.9% annual increase in fees and commissions from credit lines, from Ch$8,132 million in 2008 to Ch$18,534 million in 2009.

a 17.7% increase in fees and commissions from foreign trade and currency exchange during a year marked by volatility in the foreign exchange markets, which led investors to take and defease positions in order to reduce their exposure to market risks.

Table of Contents

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, or the exchange rate variation on foreign branches capital and reserves. Foreign exchange results include existing interest rate differences in currency derivatives.

The following table sets forth certain components of our other income (loss), net, in the years ended December 31, 2008 and 2009:

	Year Ended December 31, 2008	2009	% Increase (Decrease) 2008/2009
	(in millions of Ch$, except percentages)		
IFRS:			
Net financial operating income			
Interest accrued on trading securities	Ch$ 49,011	Ch$ 4,518	(90.8%)
Gains (losses) on sales and mark to market	(6,748)	32,758	
Gains (losses) on derivatives contracts	340,856	(175,455)	
Gains from sales of loans	1,717		(100.0)
Total net financial operating income	384,836	(138,179)	
Foreign exchange transactions, net	(353,012)	220,999	
Other operating income	30,937	22,190	(28.3)
Total	Ch$ 62,761	Ch$ 105,010	67.3%

2008 and 2009. Other income (loss), net, increased from 2008 to 2009 by 67.3%. Foreign exchange transactions increased mainly due to the depreciation of the Chilean peso, which improved our net results related to liabilities in U.S. dollars, from which this item passed from a net loss of Ch$353,012 million in 2008 to a net gain of Ch$220,999 in 2009. Total net financial operating income decreased significantly in 2009, mainly due to the drop in gains (losses) on derivative contracts. This decrease was due to a net asset position in U.S.$/Ch$ forward contracts in an environment of decreasing exchange rates during 2009 as compared to the devaluation experienced by the Chilean peso during 2008, especially in the second semester of that year. Other operating income amounted to Ch$22,190 million in 2009, which represents a 28.3% decrease as compared to 2008, primarily as a result of non-recurring income that approximately amounted to Ch$48,800 million in 2008 as a consequence of the sale of our foreign branches located in New York and Miami, as well as the sale of a portion of our stock in Visa Inc. held by the Bank.

Table of Contents

Provisions for Loan Losses

The Bank is required to maintain allowances to cover possible credit losses in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. 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 14(b) to our audited consolidated financial information. 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. See Note 14(b) to our audited consolidated financial statements.

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, 2008 and 2009:

	Year Ended December 31, 2008	2009	% Increase (Decrease) 2008/2009
	(in millions of Ch$, except percentages)		
IFRS:			
Provisions:			
Total provisions for loan losses	Ch$ 149,374	Ch$ 241,345	61.6%
Gross provisions for loan losses	189,022	268,224	41.9
Total loan loss recoveries	39,648	26,879	(32.2)
Charge-offs:			
Total charge-offs	112,989	181,793	60.9
Net charge-offs	73,341	154,914	111.2
Other asset quality data:			
Total loans	Ch$ 13,685,572	Ch$ 13,191,256	(3.6)
Consolidated risk index	1.64%	2.37%	
Unconsolidated risk index	1.50%	2.33%	
Allowances for loan losses	225,105	312,101	38.6
Allowances for loan losses as a percentage of total loans	1.64%	2.37%	

2008 and 2009. Provisions for loan losses significantly increased by 61.6% from 2008 to 2009, mainly due to the global financial crisis that negatively impacted the risk profile of both individuals and companies. In addition, an important portion of this increase was due to the deteriorated risk profile of certain customers related to the Chilean salmon industry, which faced productive difficulties (ISA virus) that negatively impacted their results and ability to make payments. Furthermore, in 2009 we developed and implemented a new rating model for small and medium-sized companies that implied a one-time allowance, which amounted to approximately Ch$4,500 million.

Table of Contents

Operating Expenses

The following table sets forth information regarding our operating expenses for the years ended December 31, 2008 and 2009:

	Year Ended December 31, 2008	2009	% Increase (Decrease) 2008/2009
	(in millions of Ch$, except percentages)		
IFRS:			
Personnel expenses	Ch$ 305,555	Ch$ 256,782	(16.0%)
Administrative expenses:			
Advertising	26,447	17,943	(32.2)
Building maintenance	22,450	21,611	(3.8)
Rentals and insurance	18,749	19,177	2.3
Office supplies	7,985	6,818	(14.6)
Other expenses	100,933	101,665	0.7
Total administrative expenses	Ch$ 176,564	Ch$ 167,214	(5.3%)
Depreciation and amortization	39,070	36,447	(6.7)
Other operating expenses	35,312	21,522	(39.1)
Total	Ch$ 556,501	Ch$ 481,965	(13.4%)

2008 and 2009. Our operating expenses significantly decreased by 13.4% from 2008 to 2009. This variation is in line with our long-term focus on cost control and efficiency. The key factors influencing the decrease in our operating expenses are:

a 5.9% annual reduction in personnel positions, as a result of higher efficiency and productivity due to synergies obtained as a consequence of our merger with Citibank Chile, and lower commercial activity registered throughout 2009 as a result of the global financial crisis;

lower administrative expenses along with specific cost-reduction projects carried out during 2009 that allowed us to reduce expenses related to supplies and technology; and

non-recurring expenses of approximately Ch$58,000 million in 2008 related to our merger with Citibank Chile and, to a lesser extent, bonuses paid as part of the negotiations related to collective bargaining agreements entered into by the Bank and its subsidiaries

Income Tax

The statutory corporate income tax rate in Chile was 17% in 2009 and 2008. We are also permitted under Law No. 19,396 to deduct dividend payments made to SAOS from our taxable income. Consequently, our effective tax rate is significantly lower than the statutory corporate income tax rate because of the deduction of such dividend payments from our taxable income. Additionally, but to a lesser extent, differences in the tax treatment for monetary correction, as well as provisions on individual loans and for charge-offs related to past-due loans have an impact on our effective tax rate. Finally, all real estate taxes paid on properties that are leased to customers are deductible from our taxable income.

2008 and 2009. In 2009, despite a lower net income before taxes as compared to 2008, we recorded a tax expense of Ch$40,389 million as compared to a tax expense of Ch$35,313 million in 2008. This increase was primarily attributable to a higher effective tax rate, which increased from 9.8% in 2008 to 13.4% in 2009, primarily due to the significant impact of price level restatement in 2008 that did not carry over into 2009. The Chilean Revenue Service allows a deduction from taxable net income of the effect of inflation on the Bank s equity, which is not allowed in an environment of deflation.

97

Table of Contents

Accordingly, despite the higher net income before tax attained by the Bank in 2008, the inflation registered in 2008 allowed us to significantly reduce the taxable net income in 2008, whereas, for taxation purposes, deflation had no effect on the Bank s net income before tax in 2009. To a lesser extent, the higher effective tax rate in 2009 can be explained by a tax provision of Ch$3,052 million established by the Bank for potential tax payments to the Chilean Revenue Service arising from a review process carried out by the Chilean Revenue Service intended to determine the tax effects of write-offs related to secured loans granted by the Bank during 2007 and 2008.

Business Segments

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

Retail market: This segment is focused on individuals, as well as small and medium-sized companies whose annual sales do not exceed Ch$1,400 million. The segment s value proposition is primarily focused on consumer loans, commercial loans, current accounts, credit cards, credit lines and mortgage loans.

Wholesale market: This segment is focused on corporate clients and large companies whose annual revenue exceed Ch$1,400 million. This segment offers products and services focused on commercial loans, current accounts, liquidity management services, debt instruments, foreign trade, derivative contracts and leases, as well as corporate finance transactions.

Treasury and money market operations: The revenue generated by this segment relates to the management of the Bank s balance sheet and liquidity, as well as trading on account of the Bank.

Operations through subsidiaries: This segment corresponds to all companies controlled by the Bank whose results are obtained individually by the respective company. As of December 31, 2009, this business segment consisted of the following companies:

- Banchile Trade Services Limited;
- Banchile Administradora General de Fondos S.A.;
- Banchile Asesoría Financiera S.A.;
- Banchile Corredores de Seguros Ltda.;
- Banchile Factoring S.A.;
- Banchile Corredores de Bolsa S.A.;
- Banchile Securitizadora S.A.;
- Socofin S.A.; and
- Promarket S.A.

For internal reporting purposes, we utilize an additional segment, namely other, in order to reflect the effects of non-recurring income and expense items that cannot be suitably allocated to any of the previously mentioned segments. Accordingly, during 2008 the expenses related to our merger with Citibank Chile were mostly allocated to this segment s results.

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

Table of Contents

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

The financial information used to measure the performance of the Bank s business segments is not necessarily comparable with similar information from other financial institutions because it is based on our internal reporting policies. The accounting policies used to prepare the Bank s operating segment information are similar to those described in Note 2 to our audited consolidated financial statement, Summary of Significant Accounting Principles, except as noted below:

The net interest margin of loans and deposits is measured on an individual transaction and individual client basis, stemming from the difference between the effective customer rate and the Bank s related fund transfer price in terms of maturity, re-pricing and currency.

The results associated with gap management (interest rate mismatches) are fully allocated to our treasury segment.

The internal performance profitability system considers capital allocation in each segment in accordance with Basel guidelines.

In addition to direct costs (consisting mainly of labor and administrative expenses of the business segments), the Bank allocates all of its direct and indirect operating costs of back office and support units to each business segment by utilizing the most relevant business driver to assign such costs to the specific segment.

The Bank applies Chilean GAAP when measuring and recording its allowances for loan losses, assets received in lieu of payments, minimum dividend allowances and other minor items for internal reporting purposes. These accounting principles significantly differ in certain respects from IFRS. A further description on these differences is presented below under Summary of differences between internal reporting policies and IFRS.

Net Income by Business Segment

The following table sets forth net income before tax expenses by business segment in accordance with our internal reporting policies for each of the years ended December 31, 2008 and 2009.

	Year Ended December 31, 2008	2009	% Increase (Decrease) 2008/2009
	(in millions of Ch$, except percentages)		
BANK S INTERNAL REPORTING POLICIES:			
Retail banking	Ch$ 137,538	Ch$ 83,624	(39.2%)
Wholesale banking	142,206	54,505	(61.7%)
Treasury and money market operations	66,795	106,937	60.1%
Subsidiaries	38,770	52,418	35.2%
Other	(6,164)		(100.0%)
Net income	Ch$ 379,145	Ch$ 297,484	(21.5%)

Table of Contents

Retail Banking. 2008 and 2009. The 39.2% decrease in the retail banking business segment s net income in 2009 was primarily attributable to a 36.6% increase in provisions for loan losses, from Ch$114,223 million in 2008 to Ch$156,013 million in 2009. This increase was fueled by the global financial crisis, which led to a deterioration of customer risk profiles and created a situation in which provisions for loan losses increased to offset potential credit quality problems. A 3.9% decrease in net operating income also contributed to the overall decrease.

Wholesale Banking. 2008 and 2009. The 61.7% decrease in the wholesale business segment s net income in 2009 was mainly attributable to (i) a 68.1% increase in provisions for loan losses to Ch$66,016 million in 2009, due to a deterioration of certain corporate customer risk profiles, (ii) a lower contribution from demand deposits prompted by the lower interest rates registered in 2009 as compared to 2008, (iii) a 10.6% reduction in total loans mainly due to deteriorated economic conditions that prompted large companies to postpone investment projects, and (iv) a lower yield of the capital allocated to the wholesale business segment, primarily as a result of the lower inflation rate observed during 2009 as compared to 2008.

Treasury and Money Market Operations. 2008 and 2009. The treasury and money market operations business segment s net income (before taxes) increased significantly to Ch$106,936 million in 2009 from Ch$66,791 million in 2008, representing a 60.1% increase. This increase was primarily a result of the higher performance of interest rate positions (maturity mismatch) and the net gains from our trading and available-for-sale portfolios.

Operations through Subsidiaries. 2008 and 2009. The 35.2% increase in net income from our subsidiaries in 2009 compared to 2008 was primarily attributable to (i) the 11.9% net income increase of our Securities Brokerage subsidiary, as a consequence of greater revenues from fixed-income securities trading and stock trading fees, (ii) an increase of 12.3% in the results of Banchile Administradora General de Fondos generated by a 31% increase in the average assets under management and (iii) a 17.1% increase in net earnings of our Financial Advisory subsidiary, related to a higher activity in bond and equity advisory business.

Summary of differences between internal reporting policies and IFRS

We prepare our business segments financial information in accordance with our internal reporting policies, which differ in certain significant aspects from IFRS. The following table sets forth net income and equity for the years ended December 31, 2008 and 2009 in accordance with our internal reporting policies and under IFRS:

	As of January 1, 2008	Year Ended December 31, 2008	2009
		(in millions of Ch$)	
Net income before taxes (Internal Reporting Policies)	Ch$	Ch$ 379,145	Ch$ 297,484
Reconciliation to IFRS		(17,237)	4,651
Net income before taxes (IFRS)		361,908	302,135
Net income (Internal Reporting Policies)		347,439	257,887
Net income (IFRS)		365,054	261,746
Equity (Internal Reporting Policies)	1,051,393	1,321,753	1,392,748
Equity (IFRS)	Ch$ 1,052,579	Ch$ 1,505,318	Ch$ 1,600,985

Some differences exist between our net income and equity as determined in accordance with our internal reporting policies, which are used for management reporting purposes, as presented in the segment information, and our net income and equity as determined under IFRS, as presented in our consolidated financial statements.

Table of Contents

The most significant differences are as follows:

Under internal reporting policies, the merger of Banco de Chile and Citibank Chile was accounted for under the pooling-of-interest method, while under IFRS, and for external financial reporting purposes, the merger of the two banks was accounted for as a business combination in which the Bank is the acquirer as required by IFRS 3 Business Combinations. Under IFRS 3, the Bank recognized all acquired net assets at fair value as determined at the acquisition date, as well as the goodwill resulting from the purchase price consideration in excess of net assets recognized. As a result of these accounting policy differences, our net income under IFRS is Ch$6,450 lower than our internally reported net income in 2008 and 2009.

For internal reporting purposes, allowances for loan losses are calculated based on specific guidelines set by the Chilean Superintendency of Banks based on an expected losses approach. Under IFRS, IAS 39 Financial instruments: Recognition and Measurement, allowances for loan losses should be adequate to cover losses in the loan portfolio at the respective balance sheet dates based on an analysis of estimated future cash flows. According to internal reporting policies, the Bank records additional allowances related to expected losses not yet incurred, whereas under IFRS these expected losses must not be recognized. As a result of these accounting policy differences, our net income under IFRS is Ch$27,843 and Ch$5,298 million higher than our net income internally reported in 2008 and 2009, respectively.

For internal reporting purposes, assets received in lieu of payments are measured at historical cost or fair value, less cost to sell, if lower, on a portfolio basis and written-off if not sold after a certain period in accordance with specific guidelines set by the Chilean Superintendency of Banks. Under IFRS, these assets are deemed non-current assets held-for-sale and their accounting treatment is set by IFRS 5 Non-current assets held for sale and Discontinued operations. In accordance with IFRS 5 these assets are measured at historical cost or fair value, less cost to sell, if lower. Accordingly, under IFRS these assets are not written off unless impaired. As a result of this accounting policy difference, our net income under IFRS is Ch$4,188 million higher than our net income internally reported in 2008 and Ch$3,838 million higher in 2009.

Chilean companies are required to distribute 30% of their net income to shareholders unless a majority of shareholders approve the retention of profits. In accordance with internal reporting policies, the Bank records a minimum dividend allowance based on its distribution policy, which requires distribution of at least 70% of the period net income, as permitted by the Chilean Superintendency of Banks. During 2008 and 2009, the Bank recorded allowances of Ch$190,698 and Ch$180,519 million, respectively. Under IFRS, only the portion of dividends that is required to be distributed by Chilean Law must be recorded, i.e., 30% as required by Chilean Corporations Law. This accounting difference does not lead to differences in net income.

LIQUIDITY AND CAPITAL RESOURCES

Overview

A sound liquidity strategy must be focused on ensuring that funds are available to honor our financial commitments when they are due and also to take advantage of attractive business opportunities. To accomplish this, we monitor funding liquidity (i.e., the ability to raise funds when they are needed without incurring abnormal costs) and trading liquidity (i.e., the ability to easily defease debt and equity instruments held in our portfolios and/or offset price risk positions generated by derivative transactions).

Liquidity risk can be technically broken down into two types of risks: trading liquidity risk and funding liquidity risk. Trading liquidity risk deals with the inability to defease cash positions (bonds, loans, etc.) and/or offset price risks generated by derivatives transactions; Funding liquidity risk is related to the Bank s inability to raise funds. Both risks can lead to potentially adverse scenarios that might make the bank unable to meet its payment obligations and/or potential payment obligations when they become due.

These two risks are jointly managed but by utilizing different tools, as detailed below.

Trading Liquidity Risk Management

Holding a stake of debt instruments with deep secondary markets ensures trading liquidity. Central bank and government instruments show these characteristics; short-term bank s time deposits do as well. These kinds of instruments are held in our trading portfolio and comprise some portion of the Available-for-Sale (AFS) portfolio. In addition, mortgage bonds issued by banks resident in Chile and corporate bonds are also part of the AFS portfolio.

Even though mortgage and corporate bonds show much less trading liquidity than Central Bank and Government instruments, the former may be sold to the Central Bank under repurchase agreements. Government instruments and short-term bank time deposits are also eligible to be sold to the Central Bank under repurchase agreements.

Funding Liquidity Risk Management

Diversifying funding sources and avoiding a concentration of large fund providers or funding maturity dates are means to ensure funding liquidity. Diversification is ensured through the establishment of triggers that monitor concentrations of funding sources, of maturity, of currency, etc. The aggregation of significant fund providers by currency is monitored as a percentage of our current liabilities.

Concentration triggers by maturity date are also in place.

Cross-currency funding is also watched in order to avoid the inability of converting Chilean Pesos back into U.S. dollars due to an absence of trading liquidity in the Foreign Exchange market.

In particular, our funding strategy aims to satisfy our customers needs and to enhance our product base offering while maintaining a prudent product diversification profile, currencies and maturities. We are focused on broadening the current core and diversified funding obtained through the retail banking business. In addition, we are continuously issuing either senior or subordinated bonds in order to match both the liquidity and the interest rate risk generated by our long-term loans.

In addition to our own metrics in place to monitor liquidity, the Central Bank and the Chilean Superintendency of Banks have established regulations regarding liquidity, which include: minimum reserve requirements for deposits, minimum technical reserve requirements and maximum expected outflows for the following 30 and 90 days.

The Central Bank has established a minimum reserve of 9.0% for demand deposits and 3.6% for time deposits. The reserve requirement must be complied with separately by currency (Chilean Peso and foreign currencies).

In addition, we are subject to a technical reserve requirement applicable to all banks that operate in Chile. The daily balance of deposits payable on demand, net of clearing, may not exceed 2.5 times the amount of the bank s Regulatory Capital. Deposits payable on demand include:

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

Chilean regulations also require that the expected outflows within the following 30 days not exceed the amount of a bank s Basic Capital and the expected outflows within the following 90 days not exceed twice the amount of a bank s Basic Capital. Expected outflows may include behavioral assumptions. Measurements must be made by currency separately.

Mandatory metrics requested by the Chilean Superintendency of Banks and other metrics developed by the Bank utilizing internal models are daily prepared by independent units within the Corporate/Market Risk Management. These reports are daily submitted to the corresponding Treasury areas, which are in charge of overseeing and managing the liquidity of the Bank. The Country Asset Liability Committee (ALCO) also monitors these metrics on a monthly basis.

Given our internal metrics and policies, we believe that our working capital is sufficient to meet our present needs.

Cash Flows

The tables below set forth our principal sources of cash. Our subsidiaries are not an important source of cash for us and therefore, do not significantly influence our ability to meet our cash obligations. No legal, contractual or economic restrictions exist on the ability of our subsidiaries to transfer funds to us in the form of loans or cash dividends as long as our subsidiaries abide by the regulations in the Chilean Corporations Law regarding loans to related parties and minimum dividend payments.

	Year Ended December 31,	
	2008	2009
	(in millions of Ch$)	
IFRS:		
Net cash provided by operating activities	Ch$ 514,504	Ch$ 703,623

2008 and 2009. Cash provided by operating activities increased to Ch$703,623 million in 2009 from Ch$514,504 million in 2008, which represents a 36.8% increase. This increase is primarily the result of (i) the increase in current accounts and other demand deposits, and (ii) the decrease in loans to customers. This increase was partly offset by the decrease in our time deposits.

Table of Contents

	Year Ended December 31, 2008	2009
	(in millions of Ch$)	
IFRS:		
Net cash used in investing activities	Ch$ (613,264)	Ch$ (414,826)

2008 and 2009. Cash used in investing activities decreased by 32.4% to Ch$414,826 million in 2009 from Ch$613,264 million in 2008, primarily as a result of the lower annual increase of our available-for-sale portfolio, which totaled Ch$183,233 million in 2009 as compared to Ch$859,655 million in 2008.

	Year Ended December 31, 2008	2009
	(in millions of Ch$)	
IFRS:		
Net cash provided by (used in) financing activities	Ch$ 507,329	Ch$ (408,168)

2008 and 2009. During 2009, cash used in financing activities was Ch$408,168 as compared to Ch$507,329 provided by financing activities in 2008. The net outflow of cash during 2009 was primarily attributable to (i) a lower increase of long term foreign borrowings, (ii) a higher redemption of bonds and (iii) a decrease in the amount of bonds issued by the Bank in 2009 as compared to 2008.

Table of Contents

Other Borrowings

Borrowings are described as short-term when they have original maturities of less than one year or are due on demand. All other borrowings are described as long-term, including the amounts due within one year on such borrowings.

	January 1, 2008			Year Ended December 31, 2008 (In millions of Ch$)			Year Ended December 31, 2009		
	Long-term	Short-term	Total	Long-term	Short-term	Total	Long-term	Short-term	Total
IFRS:									
Borrowings from financial institutions:									
Central Bank Credit lines for renegotiation of loans	Ch$ 513	Ch$	Ch$ 513	Ch$ 307	Ch$	Ch$ 307	Ch$ 114	Ch$	Ch$ 114
Other borrowings from the Central Bank							155,090		155,090
Borrowings from domestic financial institutions		73,948	73,948		2,598	2,598		3,878	3,878
Borrowings from foreign institutions	628,887	153,981	782,868		1,495,644	1,495,644		1,209,144	1,209,144
Debt issued:									
Bonds	772,801		772,801	994,583		994,583	815,734		815,734
Subordinated bonds	446,395		446,395	555,576		555,576	506,683		506,683
Mortgage finance bonds	396,731		396,731	349,928		349,928	265,581		265,581
Other financial obligations	4,868	58,173	63,041	45,707	48,001	93,708	46,410	129,740	176,150
Total other interest bearing liabilities	Ch$ 2,250,195	Ch$ 286,102	Ch$ 2,536,297	Ch$ 1,946,101	Ch$ 1,546,243	Ch$ 3,492,344	Ch$ 1,789,612	Ch$ 1,342,762	Ch$ 3,132,374

Table of Contents

Central Bank borrowings

Central Bank borrowings include credit lines for the renegotiation of loans and other Central Bank borrowings. Credit lines were provided by the Central Bank for the renegotiation of mortgage loans due to the need to refinance debts as a result of the economic recession and crisis of the Chilean banking system from 1982 to 1985. The credit lines for the renegotiations of mortgage loans are linked to the UF index and carry an average real annual interest rate of 3.76% as of December 31, 2009. The maturities of the outstanding amounts are as follows:

	As of December 31, 2009 (in millions of Ch$)	
IFRS:		
Due within 1 year	Ch$	155,204
Due after 1 year but within 2 years		
Due after 2 years but within 3 years		
Due after 3 years but within 4 years		
Due after 4 years but within 5 years		
Due after 5 years		
Total long-term (Credit lines for renegotiation of loans)		155,204
Total short-term (Other Central Bank borrowings)		
Total Central Bank borrowings	Ch$	155,204

Borrowings from domestic financial institutions

Borrowings from domestic financial institutions, which are used to fund our general activities, carried a weighted average annual real interest rate of 4.11% as of December 31, 2009 and had the following outstanding maturities as of December 31, 2009:

	As of December 31, 2009 (in millions of Ch$)	
IFRS:		
Due within 1 year	Ch$	
Due after 1 year but within 2 years		
Due after 2 years but within 3 years		
Due after 3 years but within 4 years		
Due after 4 years but within 5 years		
Due after 5 years		
Total long-term		
Total short-term		3,878[(1)]
Total borrowings from domestic financial institutions	Ch$	3,878

(1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2009 had remaining maturities of less than one year.

Table of Contents

Borrowings from foreign financial institutions

We have short-term and long-term borrowings from foreign banks. The outstanding maturities of these borrowings as of December 31, 2009 were as follows:

		As of December 31, 2009 (in millions of Ch$)
IFRS:		
Due within 1 year	Ch$	
Due after 1 year but within 2 years		
Due after 2 years but within 3 years		
Due after 3 years but within 4 years		
Due after 4 years but within 5 years		
Due after 5 years		
Total long-term		
Total short-term		1,209,144
Total foreign borrowings	Ch$	1,209,144

Each of these loans is denominated in foreign currency and is principally used to fund our foreign trade loans and carried an average annual nominal interest rate of 1.30% as of December 31, 2009.

Bonds

Our bonds are linked to the UF Index and carried an average real annual interest rate of 3.46% as of December 31, 2009, with interest and principal payments due semi-annually. The bonds were originally intended to finance loans that had a maturity of greater than one year.

The maturities of outstanding bond amounts as of December 31, 2009 were as follows:

		As of December 31, 2009 (in millions of Ch$)
IFRS:		
Due within 1 year	Ch$	181,030
Due after 1 year but within 2 years		118,674
Due after 2 years but within 3 years		182,080
Due after 3 years but within 4 years		98,909
Due after 4 years but within 5 years		15,764
Due after 5 years		219,277
Total bonds	Ch$	815,734

Table of Contents

Subordinated bonds

Our currently outstanding subordinated bonds are linked to the UF index with interest and principal payments due semi-annually. The discount on the issuance of the currently outstanding subordinated bonds is amortized over the life of the bond. As of December 31, 2009, the effective real interest rate was 4.45% taking into consideration the discount on issuance.

The bonds are intended to finance loans having a maturity greater than one year. As of December 31, 2009 the outstanding maturities of the bonds, which are considered long-term, were as follows:

		As of December 31, 2009 (in millions of Ch$)
IFRS:		
Due within 1 year	Ch$	149,621
Due after 1 year but within 2 years		28,172
Due after 2 years but within 3 years		28,172
Due after 3 years but within 4 years		20,332
Due after 4 years but within 5 years		21,306
Due after 5 years		259,080
Total subordinated bonds	Ch$	506,683

During 2009, Banco de Chile issued subordinated bonds with a 25-year maturity term. The subordinated bonds were issued in UF for an aggregate amount of Ch$21,137 million (historic pesos). These subordinated bonds accrue interest at an annual rate of 4.5%.

Subordinated bonds are considered in the calculation of Regulatory Capital for the purpose of determining our minimum capital requirements.

Table of Contents

Mortgage finance bonds

Mortgage finance bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and carried a weighted average annual interest rate of 4.19% as of December 31, 2009.

The maturities of outstanding mortgage finance bond amounts as of December 31, 2009 were as follows:

	As of December 31, 2009 (in millions of Ch$)	
IFRS:		
Due within 1 year	Ch$	37,407
Due after 1 year but within 2 years		35,924
Due after 2 years but within 3 years		33,194
Due after 3 years but within 4 years		28,638
Due after 4 years but within 5 years		26,408
Due after 5 years		104,010
Total mortgage finance bonds	Ch$	265,581

Other financial obligations

	As of December 31,	
	2008	2009
	(in millions of Ch$)	
IFRS:		
Other long-term obligations:		
Obligations with Chilean Government	Ch$ 45,708	Ch$ 46,410
Total other long-term obligations	45,708	46,410
Other short-term obligations	48,000	129,740
Total other obligations	Ch$ 93,708	Ch$ 176,150

As of December 31, 2009, other financial obligations had the following maturities:

	As of December 31, 2009 (in millions of Ch$)	
IFRS:		
Due within 1 year	Ch$	129,740
Due after 1 year but within 2 years		
Due after 2 years but within 3 years		
Due after 3 years but within 4 years		
Due after 4 years but within 5 years		
Due after 5 years		
Total long-term		129,740
Total short-term		46,410

Total other obligations	Ch$	176,150

(1) Includes borrowings with maturities that were originally greater than one year but which as of December 31, 2009 had remaining maturities of less than one year.

Table of Contents

Asset and Liability Management

Our asset and liability management policy is to maximize net interest income, return on assets and average equity in light of interest rate, liquidity and foreign exchange risks, within the limits of Chilean banking regulations and our internal risk management policies. Subject to these constraints, we may from time to time take mismatched positions as to interest rates or, in certain limited circumstances, foreign currencies when justified, in our view, by market conditions and prospects, and subject to our asset and liability management policies. Our Board of Directors determines our asset and liability policies. See Note 45 to our audited consolidated financial statements.

Funding

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2008 and 2009, in each case together with the related average nominal interest rates paid thereon:

	Year Ended December 31,					
	2008			2009		
	Average Balance	% of Total Liabilities	Average Nominal Rate	Average Balance	% of Total Liabilities	Average Nominal Rate
	(in millions of Ch$, except percentages)					
IFRS:						
Current accounts and demand deposits	Ch$ 2,703,027	17.8%	%	Ch$ 3,133,304	19.9%	%
Savings accounts and time deposits	7,594,363	49.9	8.03	7,568,317	48.1	2.23
Borrowings from financial institutions	1,223,693	8.0	0.35	1,197,151	7.6	0.21
Debt issued	1,730,996	11.4	13.07	1,713,629	10.9	1.88
Other financial obligations	95,202	0.6	25.16	101,999	0.6	21.69
Other interest bearing liabilities	439,345	2.9	6.48	275,058	1.7	2.31
Other non-interest bearing liabilities	1,433,865	9.4		1,739,093	11.2	
Total liabilities	Ch$ 15,220,491	100.0%		Ch$ 15,728,551	100.0%	

Our most important source of funding is our customer deposits, which consist primarily of peso-denominated, non-interest bearing current accounts and demand deposits and peso and UF-denominated interest bearing time deposits and savings accounts. Current accounts and demand deposits represented 19.9% of our average total liabilities in 2009, and are our least expensive source of funding. Savings accounts and time deposit and debt issued represented 59.0% of our average liabilities in 2009 and 61.3% of our average liabilities in 2008, respectively.

TREND INFORMATION

We believe we have developed strong competitive advantages during the last years, which should allow us to remain as a relevant player within the Chilean banking industry. We are continuously seeking additional improvements in matters such as operating efficiency, productivity, profitability and service quality. As pointed out in this annual report, the environment in which we develop our business activities is increasingly competitive and tends to create large financial groups through an active market for M&A. In addition, competition from non-banking companies, mainly those involved in the retail industry, has encouraged us to develop improved value propositions to satisfy our customers needs.

The following trends may have an impact on the Chilean economy and the economic growth of its trade partners, and could therefore also affect our operating results or financial condition:

- The fragile recovery of the global economy. Unforeseeable financial events, such as the current uncertainty about the financial condition of some European countries, affect financial markets.

- The impact on worldwide consumption and foreign trade caused by the elimination of monetary and fiscal stimulus in both developed and developing economies.

We believe that Chile and its financial industry have demonstrated to be successful in facing worldwide financial contingencies, based on a strict fiscal policy, a forward-looking and independent monetary policy, as well as a strong regulation and supervision related to the financial industry, which has been internationally recognized as an example of reliability and well-oriented practices.

In addition, an international trend intended to protect consumers financial rights has recently arisen. This trend has become increasingly significant in Chile and constitutes a tendency that could be adopted by the Chilean financial regulation, which could affect our future operating results.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we are a party to a number of off-balance sheet activities that contain credit, market and operational risk that are not reflected in our consolidated financial statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit, and long-term contractual obligations under operating leases or service contracts.

We provide customers with off balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since substantial portions of these commitments are expected to expire without our having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. The amounts of these loan commitments were Ch$3,113,239 million (U.S.$6,147 million) as of December 31, 2008 and Ch$3,352,973 million (U.S.$6,621 million) as of December 31, 2009. The amounts of subscribed leasing contracts were Ch$105,325 million (U.S.$208 million) and Ch$102,173 million (U.S.$202 million) as of December 31, 2008 and 2009, respectively.

Interest rate and cross-currency swaps, which are entered into in order to hedge the foreign investment portfolio, are recorded at their estimated fair market values. See Note 12 to our audited financial statements.

The credit risk of both on and off balance sheet financial instruments vary based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer s creditworthiness. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is requested when appropriate. For further information, see Note 30 to our audited consolidated financial statements.

Table of Contents

Financial Guarantees

The following is a summary of the nominal value of instruments that are considered financial guarantees and which are accounted for under off balance sheet accounts:

	As of December 31, 2009 (in millions of Ch$)
Performance bonds	Ch$ 1,168,059
Foreign office guarantees and standby letters of credit	114,012
Total	Ch$ 1,282,071

Guarantees in the form of performance bonds, standby letters of credit and foreign office guarantees are issued in connection with agreements made by customers to counterparties. If the customer fails to comply with the agreement, the counterparty may enforce the performance bonds, standby letters of credit or foreign office guarantees as a remedy. Credit risk arises from the possibility that the customer may not be able to repay us for these guarantees.

The expiration of guarantees per period is as follows:

	Due within 1 year	Due after 1 year but within 3 Years	Due after 3 years but within 5 years	Due after 5 years	Total
			(in millions of Ch$)		
Performance bonds	Ch$ 743,179	Ch$ 287,780	Ch$ 134,030	Ch$ 3,070	Ch$ 1,168,059
Foreign office guarantees and standby letters of credit	89,832	23,964	216		114,012
Total	Ch$ 833,011	Ch$ 311,744	Ch$ 134,246	Ch$ 3,070	Ch$ 1,282,071

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following tables set forth our contractual obligations and commercial commitments by time remaining to maturity. As of December 31, 2009, the scheduled maturities of our contractual obligations, including accrued interest, were as follows:

IFRS:

Contractual Obligations	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$)		
Current accounts and other demand deposits	Ch$ 3,718,076	Ch$	Ch$	Ch$	Ch$ 3,718,076
Savings accounts and time deposits	7,230,085	195,251	2,121	24	7,427,481
Bonds issued	218,437	369,872	169,719	323,287	1,081,315
Borrowings from financial institutions	1,368,226				1,368,226
Other obligations	176,150				176,150
Lease contracts	16,274	22,309	15,174	26,596	80,353

Services contracts	114,190	165,329	147,945	335,818	763,282
Payables from repurchase agreement and security lending	308,028				308,028
Total	Ch$ 13,149,466	Ch$ 752,761	Ch$ 334,959	Ch$ 685,725	Ch$ 14,922,911

Table of Contents

Item 6. Directors, Senior Management and Employees

DIRECTORS AND SENIOR MANAGEMENT

Directors

Our administration is conducted by our Board of Directors, which, in accordance with our *estatutos*, or bylaws, consists of eleven Directors and two Alternate Directors. The entire Board of Directors is elected every three years. Our current Board of Directors was elected in March 2008 and its term expires in March 2011. Our Alternate Directors were appointed in March 2008. The current Chairman of the Board, Pablo Granifo, was elected in 2007.

Cumulative voting is permitted for the election of directors. Our Chairman and our Chief Executive Officer are appointed by our Board of Directors and hold their offices at its discretion. Scheduled meetings of our Board of Directors are held at least twice a month. Extraordinary Board of Directors meetings may be called by the Chairman, when requested by a majority of the Directors, or, in limited circumstances, when requested by one Director.

Our current Directors are as follows:

Director	**Position**	**Age**
Pablo Granifo L.	Chairman	51
Andronico Luksic C.	Vice Chairman	56
Jorge Awad M.	Director	64
Jacob Ergas E.	Director	75
Fernando Quiroz R.	Director	54
Guillermo Luksic C.	Director	54
Raul Anaya E.	Director	55
Gonzalo Menendez D.	Director	61
Felipe Joannon Vergara	Director	50
Francisco Perez M.	Director	52
Jaime Estevez V.	Director	63
Rodrigo Manubens M.	Alternate Director	51
Thomas Fürst F.	Alternate Director	79

Pablo Granifo L. was elected as the Chairman of our Board of Directors in 2007. He was our Chief Executive Officer from 2001 to 2007. He was the Chief Executive Officer of Banco de A. Edwards from 2000 to 2001, a Commercial Manager at Banco Santiago from 1995 to 1999, and a Corporate Manager at Banco Santiago from 1999 to 2000. Mr. Granifo is Chairman of the Board of Directors of Banchile Asesoría Financiera S.A., Socofin S.A., Banchile Securitizadora S.A., Banchile Factoring S.A., and Banchile Administradora General de Fondos S.A., and Chairman of the Executive Committee of Banchile Corredores de Seguros Limitada. He holds a degree in Business from the Pontificia Universidad Católica de Chile.

Andrónico Luksic C. was reelected as Director and Vice Chairman of our Board of Directors in 2008, a position he has held every year since 2002. Mr. Luksic is Vice Chairman of Quiñenco S.A. and a member of the Board of Directors at Compañía Cervecerías Unidas S.A., Manufacturas de Cobre Madeco S.A., Industria Nacional de Alimentos S.A., Sociedad de Fomento Fabril (SOFOFA) and Bolsa de Comercio de Santiago. He also serves on the Chairman s Advisory Council at the Council of the Americas, the Advisory Board to the Panama Canal Authority, the Asia-Pacific Economic Cooperation Business Advisory Council, and is a Triennium Participant in the Trilateral Commission and the International Business Leaders Advisory Council of Mayor Han Zheng of the Municipal Government of Shanghai. He is a member of the Board of Trustees at Babson College, the Advisory Committee to the David Rockefeller Center for Latin American Studies at Harvard University, and the Global Advisory Board of Harvard Business School. He was Chairman of the Board of Directors of Banco O Higgins and subsequently Chairman of the Board of Directors of Banco Santiago until May 1999. Mr. Luksic was Director and Chairman of the Board of Directors of Banco de A. Edwards from September 1999 to December 2001. Mr. Andrónico Luksic and Mr. Guillermo Luksic are brothers.

Jorge Awad M. has been a member of our Board of Directors since 1996. From 1989 to 1996, he was a member of the Board of Directors of Banco de Santiago. Mr. Awad has been the Chairman of the Board of Directors of Lan Airlines S.A. since 1994 and is a member of the Board of Directors of several other companies, including Envases del Pacifico S.A. and Icare. Previously, Mr. Awad was a Director of Codelco Chile, Television Nacional de Chile, Laboratorio Chile S.A. and other companies. He is also a Professor of Business Entrepreneurship at the Universidad de Chile, from which he holds a degree in Commercial Engineering.

Jacob Ergas E. has been a member of our Board of Directors since 2002. Mr. Ergas is also Director of Banchile Administradora General de Fondos S.A. He is Chairman of the Board of Directors of J. Ergas Inversiones y Rentas Limitada, Ever I BAE S.A., Ever II HNS S.A., Inmobiliaria Paidahue S.A., and INERSA S.A. He was Chairman of the Board of Directors of Banedwards S.A., Administradora de Fondos Mutuos, Banedwards S.A. Fondos de Inversion and Banedwards Corredora de Seguros Limitada. He was Director of Promarket S.A., Banedwards Compañía de Seguros de Vida S.A. and Banedwards Asesoría Financiera S.A. He was Director and Vice Chairman of Banco de A. Edwards from 1986 to 2001 and also Director of the Chilean Association of Banks and Financial Institutions. Presently, he is a member of the Board of Directors of Banchile Administradora General de Fondos S.A.

Fernando Quiroz is the ICG Head (Institutional Clients Group) for Citi in Latin America, Chairman of Acciones y Valores Banamex (Accival), and the CEO for ICG Banamex. He is a member of Citi s Senior Leadership Committee and Citi s ICG Management Committee. Prior to his current position, Mr. Quiroz was the Head of Strategy and Corporate Development of Banamex and Citi Latin America. He began his career at Banamex in 1979, holding various positions. He also served as Head Economist of Banamex.

Guillermo Luksic C. has been a member of our Board of Directors since 2001 and was previously the Vice Chairman of our Board of Directors from March 2001 to March 2002. Mr. Luksic is Chairman of the Board of Directors of Quiñenco S.A., Compañía Cervecerías Unidas S.A. (CCU), Viña San Pedro Tarapacá S.A. and Madeco S.A. Since 2005, he has served as a member of the Board of Directors of Antofagasta PLC. Mr. Luksic is an active member of Centro de Estudios Públicos (CEP), a Chilean think-tank and member of the Board of Directors of Universidad Finis Terrae. Mr. Guillermo Luksic is the brother of Mr. Andrónico Luksic.

Raúl Anaya E. is Cluster Head for all Citigroup s businesses in Central America and the Caribbean. He is responsible for all business within this region. Mr. Anaya was named to this position in July 2008. He previously served as Chief Executive Officer of Latin America, Citigroup Global Consumer Group since December 2005. Before that, he served as Retail Head for Latin America since February 2005. From August 2003 to January 2005, Mr. Anaya was Executive Director in Charge of Consumer Assets at Banamex in Mexico, responsible for Mortgages, Personal Loans and Auto Financing. Prior to this position, Mr. Anaya was the Divisional Director in Charge of the Center Metropolitan Retail Banking Division in Banamex. From May 1999 to January 2002, Mr. Anaya was Chairman and CEO of Banco Bansud S.A. (formerly a wholly owned subsidiary of Banamex) in Argentina. Mr. Anaya joined Citibank at the Banamex New York Agency in October 1987 and subsequently became General Manager of Banamex Los Angeles Agency, Executive VP of the Corporate and International Banking Division at California Commerce Bank, General Manager of Banamex Houston Agency and General Manager of Banamex New York Agency with responsibility for the U.S. and Canada offices. Mr. Anaya was a member of the Board of Directors of California Commerce Bank from 1996 to 2001.

Table of Contents

Gonzalo Menendez D. has been a member of our Board of Directors since 2001. He is also the Chairman of the Board of Directors of Inversiones Vita S.A. and a member of the Boards of Directors of several other companies, including Banchile Asesoría Financiera S.A., Banchile Factoring S.A., Banchile Seguros de Vida S.A., Minera El Tesoro, Quiñenco S.A., Antofagasta PLC, Minera Michilla S.A., Mining Group Antofagasta Minerals S.A., Antofagasta Railway, Minera, Los Pelambres, Aguas de Antofagasta S.A., Andsberg Investment Ltd. and Andsberg Limited. He is also Vice Chairman of Fundación Andronico Luksic A. and Fundación Pascual Baburizza. Previously, Mr. Menendez served as Chief Executive Officer of Antofagasta Railway, Banco O Higgins and Empresas Lucchetti. Since 1990, he has been a Director and is now the Chairman of the Board of Directors of the Banco Latinoamericano de Comercio Exterior, S.A. Bladex. Mr. Menendez was a member of the Board of Directors and the Executive Committee of Banco Santiago and a member of the Board of Directors of Banco de A. Edwards. Mr. Menendez was a Professor of Finance and Chilean Economic and Business Policy at the Universidad de Chile. He holds a degree in Business Administration and Accounting from the Universidad de Chile.

Felipe Joannon V. has served as Managing Director of Business Development of Quiñenco S.A. since 1999. He is currently a member of the Board of Directors of Madeco, Banco de Chile, Alusa, Peruplast (a subsidiary of Alusa in Peru), Viña San Pedro Tarapacá, Foods Cía. de Alimentos CCU, and Chairman of the Board of Directors of Viña Valles de Chile and Altair. Prior to joining Quiñenco S.A., Mr. Joannon was Chief Executive Officer of Viña Santa Rita, deputy Chief Executive Officer of Cristalerías Chile and Resident Vice-President of the Corporate Finance Area of Citicorp Chile. He has also been a Professor at the Business School of Universidad Católica de Chile and Universidad de Los Andes. Currently, he is professor at the Graduate Business School of Universidad de Los Andes (ESE). He received a degree in Economics from the Universidad Católica de Chile and holds an MBA degree from the Wharton School at the University of Pennsylvania.

Francisco Perez M. has been a member of our Board of Directors since 2001. Since 1998, Mr. Perez has been the Chief Executive Officer of Quiñenco S.A. He was formerly the Chief Executive Officer of Compañía Cervecerías Unidas S.A., of which he is still a Director. Prior to 1991, Mr. Perez was Chief Executive Officer of Citicorp-Chile and also was Vice President of Bankers Trust in Chile. Mr. Perez holds a degree in Business Administration from the Pontificia Universidad Católica de Chile and a Master s Degree in Business Administration from the University of Chicago.

Jaime Estevez V. has been a member of our Board of Directors since 2007. Presently, he is also a member of the Board of Directors of Endesa Chile. Previously, Mr. Estevez served as the Chairman of Banco Estado, a state bank. Additionally, he has served as a Director on the boards of AFP Provida and AFP Protección, two Chilean private funds. Mr. Estevez served as Minister of Public Works and Minister of Transport and Telecommunications and was a Congressman and President of the Lower Chamber of Congress. Mr. Estevez holds a degree in Economics from the Universidad de Chile.

Rodrigo Manubens M. has been a member of our Board of Directors since 2001. Mr. Manubens was a member of the Board of Directors of Banco de A. Edwards from 1999 until 2001. From 1985 to 1999, Mr. Manubens was a member of the Board of Directors of Banco O Higgins and continued in that role when it merged into Banco Santiago. From 1995 to 1999 he was Chairman of Banco Tornquist in Argentina and a member of the Board of Directors of Banco Sur in Peru and Banco Asuncion in Paraguay. Mr. Manubens also served as a Director and Chairman of Endesa Chile S.A. He is Chairman of Banchile Compañía de Seguros de Vida S.A., and the Director of the Center for International Management at the Adolfo Ibañez Graduate School of Business. Mr. Manubens holds a degree in Business from Universidad Adolfo Ibañez and a Master of Science from the London School of Economics and Political Science.

Thomas G. Fürst has been a shareholder and member of our Board of Directors since 2004. Previously, Mr. Fürst was Vice Chairman of the Board of Directors at Compañía Cervecerías Unidas S.A. and a member of the Board of Directors of several other companies, including Embotelladoras Chilenas Unidas S.A., Viña Dassault-San Pedro S.A, Southern Breweries Establishment, CCU Argentina S.A. and Compañía Industrial Cerveceria S.A. (CICSA). Mr. Fürst was a Founder and member of the Board of Directors of Parque Arauco. In addition, he is a Partner and member of the Board of Directors of Plaza S.A. and Nuevos Desarrollos S.A., the owners of eleven shopping centers around Chile and two in Peru. Mr. Fürst studied Civil Construction at Pontificia Universidad Católica de Chile.

Senior Management

Our current Executive Officers are as follows:

Executive Officers	Position		Age
Arturo Tagle Quiroz	Chief Executive Officer		51
Pedro Samhan. E.	Chief Financial Officer		59
Nelson Rojas P.	General Legal Counsel		56
Mauricio Baeza L.	Manager	Corporate Credit Risk Division	47
Alejandro Herrera A.	Manager	Commercial Division	53
Patricio Melo G.	Manager	Operations and Technology Division	50
Jennie E. Coleman A.	Manager	Human Resources Division	56
Felipe Dawes C.	Manager	Development and Quality Division	36
Eduardo Ebensperger O.	Manager	Wholesale, Large Corporations and Real Estate Division	44
Juan Cooper A.	Manager	Consumer Division	49
Felipe Echaiz B.	Manager	Global Compliance Division	43
Mario Farren R.	Manager	Corporate and Investment Banking Division	49
Julio Ramirez G.	Manager	Individual Credit Risk Division	44
Oscar Mehech C.	Manager	Risk Control Division	45

Arturo Tagle Q. was appointed our Chief Executive Officer in 2010. Prior to serving this position, and since November 2009, he was the Manager of the Institutional and Investors Relations. Previously he was the Manager of the Strategic Development Division, since 2008. From 2002 to 2007 Mr. Tagle was CFO of the Bank and from 1998 to 2001 he was Head of Internal Audit and Control. Mr. Tagle joined us in 1995. Previously he was General Manager of the Chilean Bankers Association (1990 1994) and Director of Research at the Chilean Superintendency of Banks (1984 1989). Mr. Tagle is also the general manager of Sociedad Matriz del Banco de Chile S.A. and SAOS since 1996. He holds a degree in Business Administration from the Pontificia Universidad Católica de Chile and a Master s Degree in Business Administration from the University of Chicago.

Pedro Samhan E . was appointed our Chief Financial Officer on January 1, 2008. On August 21, 2008, he was appointed Director of Banchile Trade Services Limited. Prior to his appointment as Chief Financial Officer, Mr. Samhan was the Chief Financial Officer of Citigroup Chile for several years. He served as a Board member of Cruz Blanca Seguros de Vida (1994 1997), AFP Habitat (1996 2006) and Compañía Minera Las Luces (1994 1996). Mr. Samhan was Chief Financial Officer of Citicorp for Caribbean and Central America (1990 1993) and Investment Banking Head of Citicorp Chile (1988 1990). Mr. Samhan holds a degree in Civil Industrial Engineering from the Universidad de Chile.

Nelson Rojas P. has been our General Counsel and Secretary of our Board of Directors since 2004. In 2002, he joined us as Deputy General Counsel. Mr. Rojas joined Banco de A. Edwards in 1987 and was the General Legal Counsel and Secretary of the Board of Directors of Banco de A. Edwards from 1997 until 2002. He is also Vice President of the Legal Affairs Committee of the Chilean Bank Association. Mr. Rojas holds a degree in Law from the Universidad de Chile.

Mauricio Baeza L. has been the Manager of the Credit Risk Division since December 2005. Mr. Baeza joined us in 1997 and was Manager of the Risk Division in Banco de A. Edwards during 2001. He was Risk Manager at Banco Santiago from 1993 to 1997 and a member of the Board of Directors of Santiago Administradora de Fondos de Inversion. He is Secretary to the Director s Loan Committee, SOCOFIN SA Committee Advisor, Finance, International and Financial Risk Committee Advisor, and participates in the Portfolio Risk Committee. Mr. Baeza is also a member of the Investment Committee of Banchile Fondo Inmobiliario. Mr. Baeza holds a degree in Civil Engineering from the Pontificia Universidad Católica de Chile.

Table of Contents

Alejandro Herrera A. leads the Commercial Division, including Marketing, Individual and Small and Medium-Sized Companies and Branches since 2009. From 2006, he also held the position of Manager of Branches, Individual and Middle Market Banking. He served as Manager of the Individual Banking and Branches Division at Banco de A. Edwards from 2000 to 2001 and at Banco Sudamericano from 1996 to 1999. He also served as the Chief Executive Officer of Administradora de Fondos Mutuos Santiago S.A. from 1994 to 1995 and as Branch Manager at Banco Santiago for the Santiago region. Mr. Herrera is a member of the Board of Directors of Banchile Administradora General de Fondos S.A., Redbanc S.A. and Socofin S.A., and a member of the Executive Committee of Banchile Corredores de Seguros Limitada and Credichile. He holds a degree in Business from the Pontificia Universidad Católica de Valparaiso.

Patricio Melo was appointed Operations & Technology Division Manager at Banco Chile on July 1, 2008. He was CEO for Altec Brasil SA. from 2006 until June 2008, being the main person responsible for technological management of Banco Santander in Brazil. He was CEO for Altec Chile from 2001 until 2005. From 1992 until 2000 he joined Banco Santander in Chile and Perú as an Operations & Technology Manager. He has also been a member of various Boards of Directors such as that of Redbanc S.A., ALTEC México and ALTEC Chile. Mr. Melo majored in Electronic Engineering at Universidad Federico Santa María.

Jennie E. Coleman A. joined us as Manager of the Human Resources Division in March 2003. Previously, she was the Manager of the Human Resources Division, Manager of Organizational Development, and Training Chief Executive at Banco Santiago, where she worked for more than 23 years. Mrs. Coleman holds a degree in Public Administration from the Universidad de Chile.

Felipe A. Dawes has led the Development and Quality Division since 2009. He joined Banco de Chile in 2009, where he first led the Transformation Office. Prior to working for Banco de Chile, he was a consultant at McKinsey & Company, where he led projects in the Americas, Europe, Asia and Africa. Prior to McKinsey & Company, Mr. Dawes was a founding member of DeRemate.com and a Brand Manager at Compañía Cervecerías Unidas, managing Pepsi and Seven Up Brands. He holds a degree in Business from the University of Chile and a Masters in Business Administration from Harvard Business School.

Eduardo Ebensperger O. has been the Manager of the Wholesale, Large Corporations and Real Estate Division since June 2005, and was previously the Chief Executive Officer of Banchile Factoring S.A. from 2002 to 2005. He joined Banco de A. Edwards in 1989. Mr. Ebensperger was Manager of the Small and Medium-Sized Companies Division and Manager of the regional branches of Banco de A. Edwards from 1997 to 2001. Presently, Mr. Ebensperger is the Chairman of the Board of Directors of Artikos S.A. He is also currently a member of the Board of Directors of Banchile Asesoría Financiera S.A., Banchile Factoring S.A. and Banchile Securitizadora S.A. Mr. Ebensperger holds a degree in Business from the Universidad de Chile.

Juan Cooper A. has been the Manager of the consumer division since 2003. He was the Chief Executive Officer of Altavida Santander Compañía de Seguros de Vida S.A. from 2001 to 2002 and the Manager of Santiago Express, the consumer division of Banco Santiago from 1993 to 2000. He is also currently a member of the Board of Directors of Socofin S.A., and a member of the Executive Committee of Banchile Corredores Seguros Limitada. Mr. Cooper has a degree in Business from the Universidad de Chile and a master s degree in Business Administration from the Pontificia Universidad Católica de Chile.

Felipe Echaiz B. has been the Global Compliance Division Manager since January 2008. He joined us this year as a result of the merger with Citibank Chile. Mr. Echaiz worked at Citibank for ten years and was Citigroup s Country Compliance Officer from 2006 to 2007. In 2003, he was the Deputy Director to the Anti-Money Laundering and Organized Crime Unit (Public Prosecutor s Office). Mr. Echaiz is a member of the Executive Committee for Anti-Money Laundering of the Chilean Banks Association and holds a degree in Law from the Pontificia Universidad Católica de Chile, and a Master s Degree in Finance and Economics from the Universidad de Chile.

Table of Contents

Mario Farren R. has been the head of the Corporate and Investment Banking Division of Banco de Chile since September 1, 2008. Between January and September 2008 he was Head of the Treasury Division. Prior to serving in this position, Mr. Farren was the Country Treasurer for Citi Chile. In addition, Mr. Farren has held other positions in Citi Latin America and Citi New York, such as Country Treasurer and Investment Bank Head in Citi Uruguay, Treasury Products Sales Head in New York and Country Treasurer in Citi Colombia. He joined Citibank Chile in 1991 where he served as Derivative Head and General Manager of Citigroup Chile S.A. Corredores de Bolsa, among other positions. He holds a business degree from Universidad de Chile and a Master of Business Administration degree from the University of Chicago, Illinois.

Julio Ramírez G. was appointed head of our Individual Credit Risk Division in January 2008. Mr. Ramírez joined us in 2002 as a result of the merger with Banco de A. Edwards, where he had been since 1990. From 2002 to 2007, Mr. Ramírez was Manager of the Individual Credit Risk Area, which was part of the Credit Risk Division. Mr. Ramírez is a member of the Board of Directors of Socofin S.A. He holds a degree in Business from the Universidad de Chile.

Oscar Mehech C. was appointed head of our Risk Control Division in July 2008 after holding various positions at the Bank, which include being Head of our Regulatory Policies Division, Global Compliance Head and Deputy General Counsel. Prior to joining the Bank in 2002, he was Deputy General Counsel at Banco de A. Edwards. Mr. Mehech is the Chairman of the Internal Audit Committee of the Chilean Banking Association and a member of the Surveillance Committee of Depósito Central de Valores S.A. He holds a law degree from Universidad de Chile and a Master s degree in Business Administration from the Pontificia Universidad Católica de Chile.

COMPENSATION

The table below presents the amount of compensation, as established by our shareholders, to the members of our Board of Directors for the year ended December 31, 2009. These amounts include remuneration for services, fees for attendance at Board meetings, committee meetings and subsidiary Board meetings and consulting and travel expenses.

Name of Director	Remuneration	Fees for attendance at board meetings	Fees for attendance at committee meetings and subsidiary board meetings	Consulting	Total
			(in millions of Ch$)		
Pablo Granifo Lavín	Ch$ 332	Ch$ 39	Ch$ 291	Ch$	Ch$ 662
Andrónico Luksic Craig	140	13			153
Jorge Awad Mehech	47	21	63		131
Jacob Ergas Ergas	47	17	53		117
Jaime Estévez Valencia	47	21	67		135
Guillermo Luksic Craig	47	6			53
Rodrigo Manubens Moltedo	47	19	55		121
Gonzalo Menéndez Duque	47	19	115		181
Francisco Pérez Mackenna	47	18	55		120
Thomas Fürst Freiwirth	47	19	49		115
Juan Andres Fontaine Talavera	47	19	52		118
Fernando Quiroz Robles					
Raul Anaya Elizalde					
Other subsidiary directors			119		119
Total	Ch$ 895	Ch$ 211	Ch$ 919	Ch$	Ch$ 2,025

Table of Contents

Consistent with Chilean law, we do not disclose to our shareholders, or otherwise make public, information regarding the compensation of our senior management. For the year ended December 31, 2009, the aggregate amount of compensation paid to our senior management, including the senior management of our subsidiaries, was Ch$7,823 million. Pursuant to the Chilean Corporations Law, our Directors/Audit Committee must approve compensation plans, but we are not required to have a compensation committee. For the year ended December 31, 2009, no amounts were set aside or accrued by us to provide pension, retirement or similar benefits for our directors and officers. None of our directors is a party to any contract with us or any of our subsidiaries that provides for benefits upon termination of their appointment as directors of the Bank.

Indebtedness of Directors and Executive Officers

As disclosed in Note 42(c) to our audited consolidated financial statements, we incurred an aggregate of Ch$463,112 million in expenses and Ch$392,541 million in income from transactions other than loans with related parties in 2009.

As authorized by the General Banking Law, and within applicable regulatory limits, we also hold several outstanding loans owed by different affiliated corporations. All such loans:

- were made in the ordinary course of business;
- were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons; and
- did not involve more than the normal risk of collectibility or present other unfavorable features.

We held an aggregate of Ch$269,323 million in loans to related parties, including Ch$114,910 million in collateral pledged by, related parties as of December 31, 2009. See Note 42(a) to our audited consolidated financial statements for details concerning these transactions.

For a further description of transactions with related parties, including directors, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

BOARD PRACTICES

Governance Practices

The Board of Directors delegates certain functions and activities to our committees to research, evaluate and report to the Board of Directors regarding specific matters which may affect our businesses.

The Directors/Audit Committee

Prior to March 24, 2005, the Directors Committee and Audit Committee were separate committees performing independent functions for the Board of Directors. On March 24, 2005, the Board of Directors resolved to merge the Directors Committee with the Audit Committee, forming the Directors/Audit Committee. The Directors/Audit Committee s objectives are to seek the efficiency, maintenance, application and functioning of our internal control systems and compliance with the applicable rules and procedures governing our business; to identify our business risks; to supervise the functions of both the risk control division and the global compliance division, ensuring their independence from management; to serve as the link and coordinator of tasks between the internal audit work and the independent auditors; and to act as a link with our Board of Directors.

Our Directors/Audit Committee is composed of three members appointed by the Board of Directors. The Directors/Audit Committee is currently composed of the following individuals:

- Jorge Awad M. (chair and financial expert);
- Jaime Estevez V.; and
- Raúl Anaya E.

Mr. Awad was appointed as a member of the Directors/Audit Committee by the Board of Directors at the Board meeting held on April 12, 2007. Mr. Estevez was appointed to the Directors/Audit Committee at the meeting of the Board of Directors held on April 12, 2007. Mr. Anaya was appointed to the Directors/Audit Committee at the meeting of the Board of Directors held on November 27, 2009.

Messrs. Awad and Estevez satisfy the independence requirements of both Chilean law and Rule 10A-3 under the Exchange Act and are full voting members of our Directors/Audit Committee.

Mr. Raúl Anaya E. is exempt from the independence requirements of Rule 10A-3 of the Exchange Act pursuant to the exemption under Rule 10A-3(b)(1)(iv)(D). Pursuant to that exemption, Mr. Anaya is a non-voting member of our Directors/Audit Committee with respect to all matters required to be addressed by our Directors/Audit Committee under U.S. Federal Securities Laws.

The Directors/Audit Committee usually meets monthly and at least eight times a year. The budget of the Directors/Audit Committee is approved annually at the ordinary shareholders meeting. The Directors/Audit Committee satisfies the applicable requirements of the Chilean Superintendency of Banks and operates pursuant to a charter document. The Chilean Superintendency of Banks recommends that at least one of the members of the Directors/Audit Committee be experienced with respect to the accounting procedures and financial aspects of banking operations. The Directors/Audit Committee submits a report regarding its activities to our Board of Directors after each Directors/Audit Committee meeting and presents an annual report at our annual shareholder s meeting. As established in the Directors/Audit Committee s bylaws, the Chief Executive Officer, the General Legal Counsel and the Risk Control Division Manager, or their respective deputies, shall also attend meetings. The Directors/Audit Committee may also invite other persons to attend meetings.

Table of Contents

The Directors/Audit Committee may appoint independent personnel to carry out specific duties. The Committee s objectives include:

Seeking efficiency, maintenance, application and functioning of the internal control systems, and compliance with rules and procedures;

Supervising compliance with the rules and procedures governing the banking business and identifying the business risks of the Bank and its subsidiaries;

Supervising the functions of the Corporate Credit Risk Division and Individual Credit Risk Division, ensuring their independence from the management;

Supervising the functions of the Global Compliance Division, serving as a link and coordinator of tasks between the internal audit work and the external auditors, and acting as a link between these and the Bank s board;

Examining the fees budget for the external auditors and for the credit-rating agencies;

Analyzing the reports, content, procedures and scope of the revisions by the external auditors and credit-rating agencies;

Analyzing and generating information on the annual internal audit program and the results of internal audits and revisions;

Analyzing the interim and annual financial statements;

Analyzing the Bank s financial statements included in Form 20-F, for presentation to the Securities and Exchange Commission (SEC);

Gathering information on accounting changes occurring during the year and their effects;

Reviewing of special cases affecting the internal control systems;

Analyzing the remuneration systems and compensation plans for managers and senior executives;

Analyzing the annual performance self-evaluation process carried out by the Bank;

Analyzing related party transactions, i.e. those referred to in clauses 44 and 89 of Chilean Corporations Law;

Analyzing policies relating to operational risk and progress in the risk-management process and SOX self-evaluation, in the context of Basel II;

Analyzing and informing on matters related to the Global Compliance Division, principally regarding the revision of policies for detecting and sanctioning money-laundering transactions; and

Reviewing customer claims filed with the Chilean Superintendency of Banks and the Customer defense Division of the Chilean Association of Banks and Financial Institutions.

Table of Contents

Portfolio Risk Committee

The main function of the Portfolio Committee is to inform the Board of Directors of changes in the composition and risk of our loan portfolio from both a global perspective and from a sector point of view, and also segmented by lines of business. The Committee closely reviews the performance of our principal debtors, overdue loan ratios, past-due loan indicators, write-offs and allowances for loan losses.

The Loan Portfolio Risk Committee prepares proposals for discussion with, and approval by, the Board of Directors with respect to credit policies, portfolio evaluation methods and the calculation of allowances for expected loan losses. The Committee also performs analysis of the adequacy of allowances, authorizes extraordinary charge-offs of loans once recovery attempts have been exhausted and controls the liquidation of assets acquired in lieu of payment.

This committee meets on a monthly basis and is composed of the Chairman of the Board of Directors, the Chief Executive Officer, one additional director, the Corporate Credit Risk Division Manager, the Individual Credit Risk Division Manager and the Risk Control Division Manager.

Credit Committees

Our governance structure relating to the evaluation process of commercial loans is based on the segments and risks involved. Each credit decision should be made with the participation of committee members with sufficient authority over a particular type of loan.

A member of the Corporate Credit Risk Division is required to approve most credit decisions greater than UF 6,000. Such decisions are made by different loan committees, the highest of which, in terms of hierarchy, is the Board Loan Committee, composed of the Chief Executive Officer, the Manager of the Corporate Credit Risk Division and at least three members of the Board of Directors, all of whom review all operations exceeding UF 750,000 on a weekly basis. Any member of the Board of Directors may participate in the Board Loan Committee.

The Corporate Credit Risk Division participates in each committee independently and autonomously from our business areas.

For retail banking, we have loan committees that in exceptional cases review individual customers when they do not meet our customer profile policies, payment behavior requirements or maximum financing amounts.

Finance, International and Market Risk Committee

The main function of the Finance, International and Market Risk Committee is to analyze the evolution of our financial positions and the market risks (price and liquidity) that these financial positions generated in the past and the ones it currently generates, particularly the control of risks related to internal and regulatory limits and/or warnings. The Committee also analyzes international financial exposure and major credit exposures generated by derivative transactions.

The Committee meets monthly and is composed of the Chairman of the Board of Directors, four Directors, our Chief Executive Officer, the Corporate Credit Risk Division Manager, the Corporate and Investment Banking Division Manager, the Chief Financial Officer, the Corporate Treasurer and the Financial Risk Area Manager. Committee members conduct analyses and make presentations to the Committee regarding certain matters, including:

- Knowledge of the current status of market risk, which permits forecasting potential future losses;

Review of estimated results of certain financial positions generated in isolation in order to measure the risk-return ratio of the treasury businesses, as well as changes in and forecasts of the use of capital based on best estimates of future credit and market risks;

Analysis of the liabilities of the international financial exposure and major credit exposures generated by derivative transactions; and

The design of policies and procedures for setting controlling and reporting financial position limits and warnings.

Asset Laundering Prevention Committee

The Asset Laundering and Financing of Terrorism Prevention Committee was set up in April 2006 with the purpose of defining the policies and procedures that would comprise the Asset Laundering and Financing of Terrorism Prevention System, as well as evaluating compliance and deciding on all matters related to these subjects.

This committee includes the Chairman of the Board, the Chief Executive Officer, the General Legal Counsel, the Operations and Technology Division Manager and the Chief Executive Officer of Banchile Administradora General de Fondos. The Risk Control Division Manager and the managers of the Global Compliance Division and Asset Laundering Prevention Area may also attend the meetings, with the right to speak.

The Committee meets monthly and has the following functions:

To approve the policies and procedures concerning the gathering of information on customers and their activities and the acceptance and monitoring of their accounts, products and operations;

To approve policies and procedures concerning unusual transaction detection systems; formal channels of information to senior levels; and monitoring, analysis and reporting mechanisms;

To approve policies and procedures concerning surveillance methods and relations with correspondent banks;

To approve policies and procedures concerning staff selection, training programs and codes of conduct;

To approve the policies and procedures concerning asset laundering and terrorism financing prevention;

To appoint persons to perform specific functions in accordance with current regulations on the prevention of asset laundering and terrorism financing;

To analyze the results of the reviews conducted to verify compliance with current policies and procedures;

To consider the transactions analyzed and decisions made by the Transactions Analysis Committee;

To consider activities developed to train staff in asset laundering and terrorism financing prevention;

Table of Contents

To consider and approve modifications to procedures proposed by the Global Compliance Division that improve existing controls for the prevention of asset laundering and terrorism financing; and

To inform the Board of regulatory changes related to the prevention of asset laundering and financing of terrorism.

Disclosure Committee

In May 2003, we established the Disclosure Committee to ensure accurate market disclosure of consolidated financial information of the Bank and its subsidiaries. The members of the Disclosure Committee include the Chief Accountant, the Senior Lawyer for International Matters, the Research and Planning Area Manager, together with the Institutional and Investor Relations Division Manager, the Chief Financial Officer and the Risk Control Division Manager.

The members of the Disclosure Committee are involved in reviewing quarterly reports and in general all financial information disclosed by the Bank prior to its disclosure.

Ethics Committee

The Ethics Committee was formed in 2005 to define, promote and regulate behavior of professional and personal excellence by all the staff of Banco de Chile, coherent with the company s philosophy and values, in order to meet the expectations of trust granted by our customers.

To meet these objectives and promote a culture of ethical behavior, the Committee arranges activities regarding regulation, training and communications. The Committee sets policies on ethics and ensures their compliance, develops training plans related to ethics in our business, and reinforces positive behavior among our staff. The Committee also acts as a forum for resolving the various situations where there is a conflict between certain types of conduct and the values promoted by the Bank. This committee is chaired by the Manager of the Human Resources Division and includes the General Legal Counsel and the following Managers: Risk Control, Global Compliance, Commercial, Operations and Technology, and Wholesale, Large Corporations and Real Estate.

Citigroup and Banco de Chile Cooperation Agreements Committees

In order to control and review the evolution of the joint initiatives resulting from our strategic association between Banco de Chile and Citigroup, four committees have been set up to ensure the operation of the Direction Committee referred to in the Cooperation Agreement and in the Global Connectivity Agreement between both parties. The Direction Committee and its four related committees are composed of the Chairman of the Bank, the Chief Executive Officer and two members of the Board representing Citigroup. Also taking part in these meetings are division managers for each particular business line and the managers of the areas directly responsible for the respective business.

Global Transaction Services Committee (GTS)

The Global Transaction Services Committee was set up with the purpose of monitoring the overall performance of the Transactional Services Areas according to the Global Connectivity and Cooperation Agreements and, in particular, the functioning of the local and international cash management and custody for foreign investors.

International Personal Banking Committee (IPB)

The main goal of the International Personal Banking Committee is to monitor the functioning of the Global Connectivity and Cooperation Agreements in relation to the services provided by Banco de Chile to Citibank with respect to its financial products and services offered abroad to residents of Chile. This committee seeks to strengthen Citibank s commercial activities with individuals that are not residents of the United States.

Investment Banking Committee

The objective of the Investment Banking Committee is to foster the development of cross border merger and acquisition transactions, debt issuances and acquisitions, and capital markets for the Bank s customers and customers of Citigroup doing business in Chile. This committee is responsible for monitoring the execution of transactions performed under the Global Connectivity Agreement and collaborating in the exploration of investment banking business opportunities, as well as ensuring compliance of the agreements related to these matters.

Financial Control Committee of the Cooperation Agreement

The most important purpose of the this committee is to monitor in detail the operative and financial performance of the Global Connectivity and Cooperation Agreements signed with Citigroup. This committee checks that solutions are reached for all administrative and operative matters that permit the joint business to be carried out effectively, efficiently and profitably by both parties, ensuring compliance with the above-mentioned agreements in the matters indicated above.

Approval of Policies and Procedures under the Merger Agreement

The Merger Agreement between Banco de Chile and Citibank Chile provided that as a general rule the Board of Directors of Banco de Chile would approve and implement certain policies relating to the operation of the Bank. At the time of filing of this annual report, policies regarding the following issues have been approved and implemented:

- Anti-Money Laundering;
- Foreign Corrupt Practices Act;
- Office of Foreign Assets Control;
- Insider Trading;
- Regulation K Debts Previously Contracted;
- Regulation K Equity Activity;
- Regulation W (23 A/B);
- Code of Conduct;
- Fair Lending;
- Personal Trading Policy;

Loans to Directors;

Independent Research;

Charitable Contributions;

Chinese Walls;

Anti-Tying;

Mandatory Absence Policy;

Compliance Policy/Program;

Administration of Subsidiaries;

Fraud Management;

Anti-Boycott;

Issue Tracking, Management and Escalation Process;

Operational Risk

Credit Risk;

Vendor Selection and Management Process;

Web Site Standards;

Capital Expenditure Policy;

Expense Management Policy;

Accounting Policies and Procedures;

New Products and Services Policy;

Tax Standards for Tax Sensitive Transactions; and

Tax Policy and Procedures;

In addition to the policies mentioned above, Banco de Chile is in the process of supplementing other policies currently in force at Banco de Chile to regulate issues of importance for our business, such as prevention of asset-laundering, credit risk, and market risk.

Upper Management Committee

The Upper Management Committee, the highest coordinating body of our upper management, is chaired by the Chief Executive Officer, and its principal function is to discuss main strategic guidelines and to analyze the market and the banking industry.

This committee resolves issues relating to our internal policies and analyzes our performance. In this committee, numerous divisions exchange their points of view and prioritize joint initiatives. Each year, this committee outlines the foundations for our annual plan. After the individual annual plan for each business area is agreed upon by the Chief Executive Officer and each division manager, under the coordination of the Chief Financial Officer, the overall plan is submitted to the Board of Directors for approval. This committee also reviews progress and budgets for approved plans on a monthly basis.

Table of Contents

Operational Risk Executive Committee

Created in 2009, the Operational Risk Executive Committee is commissioned with identifying, prioritizing and establishing strategies to mitigate key operating risk events relating to internal and external fraud; risks associated with customer, product and business practices; damage to tangible assets; and disturbance of normal activity resulting from system malfunctions or failures in executing, delivering and processing products/services. This committee also establishes the principal guidelines aimed at decreasing operational losses.

To comply with these objectives and foster an awareness of operating risk, this committee promotes a series of activities relating to rules, training and communications. Its principal challenge consists of defining our corporate strategy for managing operational risk, establishing guidelines and directing efforts to create controls and improve internal processes. This committee also evaluates the performance and effectiveness of action plans created to mitigate operational risk.

This committee is chaired by the Chief Executive Officer and includes the Chief Financial Officer, the Head of Security and Risk Prevention and the managers of the Risk Control Division, Operations and Technology Division, and the Operational Risk Area.

Internal Communications Committee

The Internal Communications Committee defines policies and designs our action plan to ensure that the appropriate information reaches all of our associates. This committee ensures that information sent to employees is adequate to allow them to correctly perform their functions, communicates the organization s fundamental strategies and policies and its performance, promotes collaboration and team work, fosters personal development, encourages first-rate performance and cultivates a pleasant work environment. The Internal Communications Committee is presided over by the Manager of the Human Resources Division, the Chief Financial Officer and comprises the Managers from the following divisions:

- Operations and Technology;
- Institutional and Investor Relations;
- Commercial;
- Corporate and Investment Banking;
- Wholesale, Large Corporation and Real Estate;
- Consumer; and
- Development and Quality.

EMPLOYEES

The following table shows the breakdown of our full-time, permanent employees at the dates indicated:

	As of December 31,		
	2007	2008	2009
Banco de Chile	8,641	10,814	10,278
Overseas branches and representative offices	95	6	6
Subsidiaries	3,231	3,760	3,737
Total	11,967	14,580	14,021

As of December 31, 2009, we had 14,021 employees (on a consolidated basis) of which approximately 7,430, or 53%, were unionized. All management positions are held by non-unionized employees. As of June 15, 2010, we were a party to five collective bargaining agreements covering our unionized employees. Four of the collective bargaining agreements were signed in May 2008 and will expire in April 2012. The remaining collective bargaining agreement was renegotiated during 2009, leading to a two-year accord among the Bank and approximately 1,900 employees. We have not experienced a strike since 1998 and consider relations with our employees to be satisfactory.

We have a comprehensive personnel training and development program that includes internal courses on operational, technical and commercial matters as well as participation in external seminars. In 2009, the total cost of training programs was approximately 0.6% of total personnel salaries and expenses. This cost was related to 908 training courses, attended by 47,064 people. According to our human resources division, in early 2009, 9,980 out of 10,284 employees of Banco de Chile attended at least one training course, which represents 97% of the Bank s total personnel. We do not maintain any pension or retirement programs for the vast majority of our employees. We do, however, pay certain long-serving key employees a severance payment upon retirement. Although we have, in the past, provided productivity bonuses to individual employees on a discretionary basis, we do not maintain a formal profit-sharing plan.

SHARE OWNERSHIP

Mr. Andronico Luksic and Mr. Guillermo Luksic, members of our Board of Directors since March 2002 and March 2001, respectively, together with members of their family, control Quiñenco S.A. As of June 15, 2010, Quiñenco S.A. owns 32.74% of our outstanding shares (directly and indirectly through LQ Inversiones Financieras S.A.). Additionally, Quiñenco S.A. holds 61.71% of the voting rights in Banco de Chile (directly and indirectly through shares of SM-Chile S.A. that are owned by LQ Inversiones Financieras S.A. and Inversiones LQ-SM S.A.)

In connection with the Framework Agreement executed between Citigroup and Quiñenco S.A. in July 2007 and following the merger of Citibank Chile into Banco de Chile, Citigroup became a shareholder of LQ Inversiones Financieras S.A. (LQIF), the parent corporation of SM-Chile S.A. As of June 15, 2010, Citigroup indirectly owns 50% of LQIF and Quiñenco directly and indirectly owns 50% of LQIF. Regardless of any increase in participation by Citigroup in accordance with the Framework Agreement (as amended), the Framework Agreement and the Shareholders Agreement mentioned below under Related Party Transactions provide that Quiñenco will remain in control of LQIF and the corporations that are directly or indirectly controlled by LQIF. Accordingly, Quiñenco will maintain the power to elect the majority of the directors of LQIF, SM-Chile and Banco de Chile.

Mr. Jacob Ergas, a member of our Board of Directors since January 1, 2002, controls Ever I Bae S.A., Ever Chile S.A. and Inversiones Aspen Limitada. As of June 15, 2010, these holding companies own 2.16%, 2.16% and 1.49% of our outstanding shares, respectively. Mr. Ergas holds 5.82% of the voting rights in Banco de Chile through these holding companies.

Table of Contents

None of our Directors or senior management (other than Mr. Andronico Luksic, Mr. Guillermo Luksic and Mr. Jacob Ergas) owns 1% or more of our outstanding common stock. Further, none of our Directors (including Mr. Andronico Luksic, Mr. Guillermo Luksic and Mr. Jacob Ergas) or senior management has different or preferential voting rights with respect to the shares they own.

We do not have any arrangements for involving employees in our capital, including any arrangements that involve the issue or grant of options of our shares or securities.

Item 7. Major Shareholders and Related Party Transactions

MAJOR SHAREHOLDERS

The following table sets forth certain information regarding the ownership of outstanding shares as of June 15, 2010, for the following:

- each person or entity who is known by us to own beneficially more than 5% of our outstanding share capital or voting power; and
- our Directors and members of our executive management group, as a group.

All of our shares have the same voting rights. As of June 15, 2010, there were 15 registered shareholders of our ADSs in the United States and 1,471,878 of our ADSs were outstanding and there was one registered shareholder of 57,621 of our shares (not represented by ADSs) with a registered address in the United States.

Name	Amount Owned	Percentage(1)
LQ Inversiones Financieras S.A. and Inversiones LQ - SM Limitada(2)	50,942,487,544	61.71%
Jacob Ergas(3)	4,802,102,236	5.82
Directors and executive officers as a group (28 persons)	19,767,347	0.02%

(1) Percentages are based on 82,551,699,423 common shares outstanding as of June 15, 2010. This number includes 73,834,890,472 ordinary shares and 8,716,808,951 ordinary shares of the series Banco de Chile-S, which resulted from the merger of Citibank Chile with and into the Bank.

(2) LQ Inversiones Financieras S.A. (LQIF) holds these shares directly and indirectly through SM-Chile S.A. In connection with the Framework Agreement executed between Citigroup and Quiñenco S.A. in July 2007 and following the merger of Citibank Chile into Banco de Chile, Citigroup became a shareholder of LQIF. As of June 15, 2010, Citigroup indirectly owns 50% of LQIF and Quiñenco directly and indirectly owns 50% of LQIF. Regardless of any increase in participation by Citigroup, the Framework Agreement provides that Quiñenco will remain in control of LQIF and the corporations that are directly or indirectly controlled by LQIF. Accordingly, Quiñenco will maintain the power to elect the majority of the directors of LQIF, SM-Chile and Banco de Chile. As of December 31, 2009, members of the Luksic family or their affiliates beneficially owned 83.1% of the common shares of Quiñenco S.A. Mr. Andronico Luksic and Mr. Guillermo Luksic are members of our Board of Directors.

(3) Mr. Jacob Ergas, a member of our Board of Directors, holds his shares through Ever I Bae S.A., Ever Chile S.A. and Inversiones Aspen Ltda., which are holding companies under his control.

RELATED PARTY TRANSACTIONS

In the ordinary course of our business, we engage in a variety of transactions with certain of our affiliates and related parties. Financial information concerning these transactions is set forth in Note 42 to our audited consolidated financial statements. The Chilean Corporations Law was amended in October 2009, by Law No. 20,382, which also introduced changes to several others laws in order to generally improve Chilean corporate governance. As part of these changes, the concept of related party transactions that is provided in the Chilean Corporations Law was amended. In this regard, the new regulation establishes a different treatment for closely held corporations and for publicly held corporations. The one applicable to closely held corporations suffered minor changes, while the regulation applicable to publicly held corporations, such as Banco de Chile, has been amended to a greater extent as briefly explained below.

Table of Contents

In accordance with the Chilean Corporations Law, related party transactions in publicly held corporations are defined as every negotiation, act, contract or operation in which the corporation deals with any of the following persons: (i) one or more persons related to the corporation, in accordance with the Chilean Securities Law No. 18,045; (ii) a director, manager, administrator, main executive or liquidator of the corporation, acting on its own behalf or on behalf of persons from outside the corporation, or their respective husband or wife or related persons until second grade of affinity by blood or relation; (iii) companies or corporations in which the persons mentioned in the previous item are owners, directly or through other natural persons or corporations, of 10% or more of its capital, directors, managers, administrators or main executives; (iv) those established in the by-laws of the corporation or those reasonably agreed by the directors committee; (v) persons who acted as a director, manager, administrator, main executive or liquidator of the corporation, within eighteen months of the relevant transaction.

A publicly held corporation may only enter into transactions with related parties if (i) the purpose of the transaction is to contribute to the corporate interest, (ii) the transaction is adjusted to reflect prevailing market prices, terms, and conditions, and (iii) the transaction complies with the requirements and procedures specified in the Chilean Corporations Law, which requires that the Board of Directors approve the relevant transaction based upon the criteria mentioned in items (i) and (ii) of this paragraph. In order for the Board of Directors to approve any such transactions, the related party involved in the transaction or in its negotiation must give prior notice to the Board of Directors.

The violation of these provisions shall not affect the transaction s validity, but it shall grant the corporation, the shareholders or third parties, an indemnification right to claim damages for the benefit of the corporation. The amount of damages claimed shall be equal to the sum of the benefits obtained by the related party as a result of the relevant transaction. All board resolutions approving such related party transactions must be reported to the company s shareholders at the following annual shareholders meeting. Violations of this provision may result in administrative or criminal sanctions and civil liability to shareholders or third parties who suffer losses as a result of such violation.

The following transactions with related parties may be executed without complying with the requirements previously mentioned, subject to the prior approval of the Board of Directors of the Bank: (i) transactions that are not considered of a material amount. For these purposes, an act or contract is deemed material if (1) it exceeds 1% of the company s paid-in capital and reserves, and it also exceeds UF 2,000 or (2) it exceeds UF 20,000. There is a presumption that all contracts celebrated within a period of twelve months constitute one single transaction, irrespective of whether they are executed in one or more separate transactions during such period of time; (ii) transactions that according to a general policy of customary transactions adopted by the Board of Directors of the corporation are considered customary in connection with the corporate purpose of the corporation; (iii) transactions among corporations in which the corporation owns, directly or indirectly, at least 95% of the stake of the counterparty.

In connection with number (ii) above, on December 29, 2009, the Board of Directors of the Bank agreed to establish the following general policy which permits to carry out certain transactions with related parties without the requirements and procedures set forth in the Chilean Corporations Law. Among others, the general policy adopted by the Board of Directors of the Bank includes transactions that are within the Bank s line of business, such as current accounts, deposits, loans or credit lines with or without collateral, factoring, sale and transfer of commercial papers, collections, payments and funds transfers, foreign exchange transactions, and letters of credits. This general policy has also been extended to our affiliates.

We believe that we have complied with the applicable requirements of the Chilean Corporations Law in all transactions with related parties and affirm that we will continue to comply with such requirements. See Note 42 to our audited consolidated financial statements for a more detailed accounting of transactions with related parties.

Table of Contents

On July 19, 2007, Quiñenco S.A., Citigroup and Citibank Overseas Investment Corporation entered into a Master Joint Venture Agreement (the Framework Agreement) that set forth the parameters of a partnership between Quiñenco and Citigroup, including the eventual merger of Citibank Chile into Banco de Chile. The Framework Agreement provided that Citigroup would initially acquire a 32.96% equity interest in LQIF, the controlling shareholder of Banco de Chile, and would be entitled to increase its stake in LQIF to either 41.4778% or 50% through the exercise of several options. In this regard, Citigroup could also increase its stake in LQIF to 50% if Quiñenco exercised its put option under the Framework Agreement. The acquisition by Citigroup of its initial interest in LQIF occurred, with effect on January 1, 2008, under the terms of the Framework Agreement and the corresponding Merger Agreement between Banco de Chile and Citibank Chile. For purposes of the Merger Agreement, the operations and businesses of Citibank Chile that were effectively contributed to Banco de Chile were deemed to represent 10.497% of the post-merger entity and, together with other assets and businesses contributed by Citigroup to LQIF, were the basis for issuance by LQIF to Citigroup of the 32.96% equity interest in LQIF. As consideration for the merger and as a result of the Extraordinary Shareholders Meeting held on December 27, 2007, we issued and conveyed to LQIF (and indirectly, the holders of Citibank Chile shares) 8,443,861,140 no-par value Banco de Chile S-Series shares.

Under the Framework Agreement, Quiñenco remains as the controlling shareholder of LQIF and therefore of Banco de Chile, while Citigroup is granted certain governance and other shareholder rights in LQIF. With respect to the governance of Banco de Chile, Citigroup has the right to name two directors to the eleven-member Board of Directors of Banco de Chile, while Quiñenco would maintain the right to appoint a majority of our Board of Directors. Citigroup also has the power to propose the appointment of certain officers of Banco de Chile (including the Chief Financial Officer) and at least one representative on each of our directors committees. Under this agreement, Citigroup was also granted certain veto rights over certain fundamental strategic decisions (as defined in the Framework Agreement), such as the delisting of Banco de Chile s shares from the New York Stock Exchange or the Chilean stock exchanges, entry into new lines of business or large acquisitions, approval of related party transactions and changes to our bylaws or organizational documents. Furthermore, Citigroup agreed to purchase substantially all of the assets of the North American (i.e., Miami and New York) branches of Banco de Chile for U.S.$130 million. In the event that Citigroup were to beneficially own 50% of LQIF, Citigroup would become entitled to name up to five of our 11 directors (such number to be reduced by the number of directors appointed by minority shareholders, provided that Citigroup always shall have the right to appoint at least one director), including the Vice-Chairman of our Board of Directors. However, even in this circumstance, Quiñenco would still be entitled to appoint a majority of our Board of Directors. The Framework Agreement also set forth a series of ancillary agreements proposed to be entered into by the parties to the Framework Agreement and their Affiliates.

On December 19, 2008, Quiñenco S.A., Citigroup and Citibank Overseas Investment Corporation amended the Framework Agreement, and through it the Shareholders Agreement mentioned below. The Amendment to the Framework Agreement provides that if Citigroup does not acquire 8.52% of LQIF s shares (such that Citigroup holds a 41.4778% in LQIF) as provided in the Amendment as a consequence of the actions and decisions of any relevant authority in the United States, Quiñenco shall have the right to a compensation as provided in the Amendment, and Citigroup shall have the option of acquiring either a 41.4778% or a 50% share of LQIF. Furthermore, the Amendment provides that if for any reason Citigroup does not exercise any of the call options mentioned in the previous sentence, Quiñenco or its affiliates, as applicable, shall be entitled to require Citigroup that it sell to them an amount of shares of LQIF such that, after such sale, Quiñenco or its affiliates shall own an 80.1% stake in LQIF. If this occurs, Citigroup s governance and other shareholder rights mentioned in the preceding paragraph shall be those provided in Clause Six of the Shareholders Agreement referred to below.

On December 27, 2007, Quiñenco S.A., Citigroup Chile S.A. and the minority shareholders of LQIF entered into a Shareholders Agreement that formalized the rights of Citigroup with respect to the governance of Banco de Chile as set forth in the Framework Agreement (and as discussed in the preceding paragraph). The Shareholders Agreement became effective on January 1, 2008.

On December 27, 2007, we entered into a Global Connectivity Agreement with Citigroup. The purpose of this agreement is to enable Banco de Chile and its clients to become part of Citigroup s Global Network and to provide a framework for Banco de Chile and Citigroup to direct new business to the partnership in order to generate wealth creation for both institutions. The agreement sets forth the terms upon which Banco de Chile, Citigroup and their affiliates will develop a relationship with respect to cross-border business and services being applied to Corporate and Investment Banking, International Personal Banking, Global Transactions Services, and other services and products. The parties agreed on the following principles with respect to implementing the terms of the agreement: (i) the promotion of global connectivity products among Chilean customers, (ii) the setup of a technology platform, (iii) the training of bank officers, and (iv) the construction of international support networks to carry out the transactions contemplated by the agreement. On February 27, 2009, Banco de Chile and Citigroup amended the Global Connectivity Agreement. The purpose of the amendment was to clarify and supplement the terms of the original agreement with respect to the banking services to be provided in Chile and abroad.

On December 27, 2007, we also entered into a Trademark License Agreement with Citigroup in which Citigroup granted us a non-exclusive paid-up and royalty-free license to use certain Citi trademarks in Chilean territory. In addition, Citigroup granted us a license to use its domain name solely in connection with marketing and promoting authorized services in Chilean territory. On February 27, 2009 Banco de Chile and Citigroup amended the Trademark License Agreement. The amendment provides that Banco de Chile must deliver a certificate at least once a year that confirms Banco de Chile s compliance with the standards set forth in the agreement. In addition, Banco de Chile must comply with certain additional quality control standards approved periodically by Citigroup relating to certain products, and Citigroup has the right to review and inspect all materials relating to the offer and sale of certain products.

On December 27, 2007, we entered into a Cooperation Agreement with Citigroup The purpose of this agreement is to provide a framework for regulating the interplay of issues created by the above-mentioned Citibank Chile merger transaction agreements and to facilitate a successful relationship between Banco de Chile and Citigroup. In particular, this agreement establishes a communication mechanism between the parties to enhance the exchange of ideas and information related to the integration of our business with that of Citigroup in Chile and it also provides for certain specific areas of collaboration going forward (such as with respect to our hedging and derivatives strategies). On February 27, 2009, Banco de Chile and Citigroup amended the Cooperation Agreement to require the companies to define a more formal process for sharing information about regulatory changes in the United States and Chile that may have an impact on Banco de Chile.

On December 31, 2007, we entered into an Asset Purchase Agreement with Citibank, N.A., whereby we sold substantially all of the assets and operations of our banking businesses in Miami and New York to Citibank and Citibank agreed to offer employment to substantially all of the employees and to assume substantially all of the liabilities related to such assets and operations. In consideration for this sale, we were paid an aggregate purchase price of U.S.$130 million, in addition to the assumption of liabilities. Following the completion of the sale, the Miami and New York branches were placed in voluntary liquidation in January 2008. In March 2008, the banking licenses for both branches were surrendered to the appropriate banking regulator.

On April 21, 2008, Banco de Chile and Empresa Periodística La Tercera agreed to enter into a Credit Card Co-Branding Agreement for an annual amount of U.S.$475,000 and with a term of five years. The purpose of this agreement is to promote the use of credit cards issued by Banco de Chile among its clients who are also subscribers of La Tercera newspaper. This association will grant benefits and discounts to the subscribers of Diario La Tercera who have credit cards issued by Banco de Chile or pay with them.

On December 23, 2008, Banco de Chile and Compañía Nacional de Teléfonos, Telefónica del Sur S.A. (Telsur) agreed to enter into a Trade Agreement in order to optimize the placement and use of credit cards issued by the Bank. This commercial alliance seeks to implement a system linked to credit cards issued by the Bank and will provide discounts, benefits and incentives to be given to clients of both the Bank and Telsur.

Table of Contents

On December 30, 2008 we entered into an agreement with Banchile Seguros de Vida S.A., an affiliated insurance brokerage company, setting forth the specific terms of the life insurance policies associated with customer loans contracted by us for its borrower portfolio on behalf of the borrowers. The conditions of this agreement are an integral part of all the life insurance policies that we offer our borrowers. The agreement can be automatically renewed for two additional one-year periods through December 31, 2011.

On September 1, 2009, Banco de Chile and Jorge Ergas Heyman entered into an agreement for consulting services to the Board of Directors of Banco de Chile for an annual amount of U.S.$245,000 and with an indefinite term.

On September 25, 2009, we entered into a Master Services Agreement with Citigroup. This agreement has the purpose of regulating and supplementing certain reciprocal services that, before the merger between the Bank and Citibank Chile, had been provided pursuant to the terms of certain service-level agreements then in effect between Citigroup (and certain of its affiliates) and Citibank Chile, which were assumed, after the merger, by Banco de Chile as legal successor to Citibank Chile. Furthermore, this Agreement seeks to foster global connectivity with respect to the banking and financial services referred to in the Global Connectivity Agreement and in the other agreements executed with Citigroup mentioned above.

All the terms and conditions contained in the agreements mentioned above were previously reviewed and approved by our Board of Directors.

On January 29, 2010 Citigroup exercised a call option for 8.52% of LQIF s shares and on March 15, 2010, Citigroup exercised another call option for 8.52% of LQIF s shares. Consequently, since April 30, 2010 Citigroup and Citigroup Overseas Investment Corporation indirectly own 50% of LQIF. Citigroup is entitled to name up to five of our eleven directors (such number to be reduced by the number of directors appointed by minority shareholders, provided that Citigroup shall always have the right to appoint at least one director), including the Vice-Chairman of our Board of Directors. However, even in this circumstance, Quiñenco would still be entitled to appoint a majority of the members of our Board of Directors.

Loans to Related Parties

As authorized by the Chilean General Banking Law, and within the regulatory limits, we hold several outstanding loans owed by different corporations related to us. All such loans (i) were made in the ordinary course of business, (ii) were made on terms, including interest rates and collateral, substantially the same as those prevailing at the time for comparable transactions with other persons, and (iii) did not involve more than the normal risk of collectibility or present other unfavorable features. See Note 42(a) to our audited consolidated financial statements.

Item 8. Financial Information

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Audited Consolidated Financial Statements

Please refer to Item 18. Financial Statements.

Table of Contents

Legal Proceedings

We and our subsidiaries are subject to claims and are parties to legal proceedings in the normal course of business.

In September 2004, the Federal Agencies of the Office of the Comptroller of the Currency (OCC) and the Federal Reserve Bank of Atlanta reviewed our New York and Miami branches respectively, in order to evaluate, among other matters, their compliance with the requirements of the U.S. Bank Secrecy Act and other U.S. regulations pertaining to the prevention of money laundering. On February 1, 2005, as a consequence of these reviews, we agreed with the OCC to the issuance of a Consent Order and with the Federal Reserve Bank of Atlanta to the issuance of a Cease and Desist Order. To comply with these orders, an action plan was developed to include the development and maintenance of programs designed to strengthen compliance with the aforementioned regulations.

On March 12, 2008, the OCC Consent Order was terminated as a consequence of the voluntary liquidation of our New York branch. Likewise, on June 12, 2008, the Cease and Desist Order issued by the Federal Reserve Bank in Atlanta was terminated as a consequence of the voluntary liquidation of our Miami branch.

On March 11, 2009, the Consejo de Defensa del Estado de la República de Chile filed a complaint against Banco de Chile in the United States District Court of the Southern District of Florida. The complaint alleges substantive civil violations of the Racketeer Influenced & Corrupt Organizations Act (RICO), RICO conspiracy, aiding and abetting RICO violations, and aiding and abetting a breach of fiduciary duty. The complaint sought redress for funds allegedly misappropriated from the Chilean Government by the former President of Chile, Augusto Pinochet, and alleged that Banco de Chile had participated in conduct related to a money laundering scheme. Damages being sought were $22 million, which amount was subject to trebling pursuant to RICO.

On October 16, 2009 the Consejo de Defensa del Estado de la República de Chile and Banco de Chile executed a settlement in which the Chilean Government unconditionally and irrevocably abandoned the above-mentioned complaint. In accordance with the terms of the settlement, the Chilean Government abandoned all actions in Chile or abroad, of any nature, which it had or may have had against Banco de Chile, its branches, agencies, affiliates, subsidiaries, related persons and companies and Citibank N.A. Chile Branch, and their respective agents, directors, personnel, employees, contractors, irrespective of the date in which they may have worked or acted on behalf of the mentioned entities. The settlement included the actions that were subject to reservation of rights, in the case against Augusto Pinochet and other persons, before the Special Jurisdiction Judge of the Santiago Court of Appeals.

According to the aforementioned settlement, Banco de Chile paid U.S.$2,250,000 to the Government of Chile. Additionally, Banco de Chile had to pay the respective tax that applied over such sum.

Request from Spanish Court to Chilean Judicial Authorities

On October 26, 2009, 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), issued a letter rogatory to the Chilean judicial authorities notifying them 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 (President of Banco de Chile), Mr. Hernán Donoso Lira (former Manager of the New York Branch of Banco de Chile) and against Banco de Chile, Banchile Corredores de Bolsa S.A. and Banchile Administradora General de Fondos S.A., the latter three of which bear subsidiary civil liability. The letter rogatory, among other procedures, also required a joint guarantee (*fianza solidaria*) from those charged in the amount of US$77,348,374 and allowed for the attachment of assets for up to US$103,131,165, should the criminal defendants or the subsidiaries bearing civil liability not grant the mentioned joint guarantee.

On April 29, 2010, the Supreme Court of Chile did not grant the requests contained in the letter rogatory given that the subject matter of the investigation by the Spanish Court is currently pending before a Chilean tribunal that has jurisdiction and competence over these matters. This judicial investigation is currently underway in Chile and at the time of filing of this annual report no grounded presumptions of criminal participation of people affiliated with Banco de Chile have been established.

It is not possible to predict the outcome of these proceedings, or what impact, if any, they might have on the Bank.

Dividends

We currently have two series of common shares, and the dividends on our shares are proposed by our Board of Directors and are approved by our shareholders at the annual ordinary shareholders meeting following the year with respect to which the dividends are proposed. Our annual ordinary shareholders meeting is held in the first three months of each year. Following shareholder approval, the dividends are declared and paid. Dividends are paid to shareholders of record on the fifth business day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of our ADSs are, to the extent practicable, the same. Under the Chilean Corporations Law and regulations issued thereunder, Chilean public corporations are generally required to distribute at least 30% of their earnings as dividends. Previously, a bank was permitted to distribute less than such minimum amount in any given year with approval of the holders of at least two-thirds of the bank s outstanding stock. In 2006, however, this possibility was eliminated by law. Under the General Banking Law, a Chilean bank may only pay a single dividend per year (i.e., interim dividends are not permitted).

Our dividend policy is affected to some extent by the rights of SAOS, our affiliate, pursuant to its assumption of the Central Bank indebtedness discussed in Item 4. Information on the Company History and Development of the Bank History The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt.

We currently have two series of capital shares: Banco de Chile common shares and Banco de Chile S-series shares. We have a total of 82,551,699,423 outstanding shares with no par value, consisting of 73,834,890,472 ordinary shares and 8,716,808,951 ordinary shares of the series Banco de Chile-S, which resulted from the merger with Citibank Chile. All of our shares are duly subscribed and paid.

In March 2007, we paid a nominal dividend of Ch$1.9796 per share. At the Ordinary Shareholders Meeting on March 27, 2008, the shareholders agreed to the distribution and payment of dividend No. 196, in the amount of Ch$3.359690 per Banco de Chile common share, with a charge to the 2007 income of Banco de Chile, and the distribution and payment of a dividend of Ch$2.626161 per share of the Banco de Chile-S series. In March 2009, we paid a nominal dividend of Ch$2.357790 per share. At the Ordinary Shareholders Meeting held on March 26, 2009, the shareholders agreed to the distribution and payment of dividend No. 197, in the amount of Ch$2.357790 per Banco de Chile common share, with a charge to the 2008 income of Banco de Chile, and the distribution and payment of a dividend of Ch$2.357790 per share of the Banco de Chile-S series.

At the Ordinary Shareholders Meeting held on March 25, 2010, the shareholders agreed to the distribution and payment of dividend No. 198, in the amount of Ch$3.496813 per Banco de Chile common share, with a charge to the 2009 income of Banco de Chile, and the distribution and payment of a dividend of Ch$3.496813 per share of the Banco de Chile-S series.

During an Extraordinary Shareholders Meeting on December 27, 2007, our shareholders approved, among other things, (i) the merger with Citibank Chile and (ii) a capital increase in the amount of Ch$297,324,899,039, which was contributed and paid for as consideration for the acquisition of all of the assets and liabilities of Citibank Chile. It was further agreed that the Bank would issue 8,443,861,140 registered, ordinary no-par Banco de Chile-S series shares, which were to be delivered to the shareholders of Citibank Chile, in the proportion of 8,443.86114 shares of Banco de Chile-S for each Citibank Chile share. For a more detailed description of this Extraordinary Shareholders Meeting, see Item 10. Additional Information Memorandum and Articles of Association Shareholders Meetings and Voting Rights.

Table of Contents

Dividends payable to holders of our ADSs are net of conversion expenses of the depositary and are subject to Chilean withholding tax currently at the rate of 35%, subject to certain credits. Owners of our ADSs are not charged any fees with respect to cash or stock dividends.

Pursuant to current Chilean foreign exchange regulations, a shareholder who is not a resident of Chile need not register as a foreign investor in order to receive dividends, sale proceeds or other amounts with respect to its shares remitted outside Chile, but the investor must inform the Central Bank about any such transactions and must remit foreign currency through the Formal Exchange Market. Under the foreign investment contract, the depositary, on behalf of our ADS holders, will be granted access to the Formal Exchange Market to convert cash dividends from Chilean pesos to U.S. dollars and to pay such U.S. dollars to ADS holders outside Chile.

The following table sets forth the cash dividends declared per common share and per ADS during the periods indicated:

	As of and for the Year Ended December 31,		
	2008	2009	2009
	(in Ch$, except percentages)		(in U.S.$)
IFRS:			
Dividend payout ratio[(1)]	99.67%	60.31%	
Dividend per common share[(2)]	3.37	2.72	0.005

(1) Dividend payout ratio is calculated by dividing the amount of dividends paid by the earnings per share of the prior year.

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

Whether future dividends will be paid will depend upon our earnings, financial condition, capital requirements, governmental regulations and policies and other factors. Accordingly, there can be no assurance that dividends in future years will be paid at a rate similar to dividends paid in past years.

SIGNIFICANT CHANGES

No significant changes in our financial condition have occurred since the date of the most recent audited consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

Nature of Trading Market

Shares of our common stock are traded on the Chilean stock exchanges. They have been listed on the Santiago Stock Exchange as well as on the Valparaiso Stock Exchange since 1894, and on the Electronic Stock Exchange since 1989. The Santiago Stock Exchange is the principal trading market for our shares.

The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The Santiago Stock Exchange, which is Chile s principal exchange, had a market capitalization of approximately U.S.$231billion as of December 31, 2009 and an average monthly trading volume of approximately U.S.$3,177 million for 2009. The Santiago Stock Exchange was established in 1893 and is a private company whose equity consists of 48 shares held by 45 shareholders. As of December 31, 2009, 232 series of shares were listed on the Santiago Stock Exchange.

The Santiago Stock Exchange accounts, for approximately 87% of all amounts traded in Chile. The ten largest companies in terms of market capitalization represented, as of December 31, 2009, approximately 48.1% of the Santiago Stock Exchange s aggregate market capitalization and during 2008 accounted for approximately 27.7% of its total volume. During 2009, 27% of the companies listed on the Santiago Stock Exchange had their shares traded on an average of 70% or more of the exchange s trading days. Approximately 12% of equity trading in Chile is conducted on the Chilean Electronic Stock Exchange, an electronic trading market that was created by banks and non-member brokerage houses. The remaining 1% of equity is traded on the Valparaiso Stock Exchange.

Table of Contents

ADSs, each representing 600 shares of common stock, without nominal (par) value, have been listed on the NYSE since January 2, 2002 under the symbol BCH. JPMorgan Chase Bank is our depositary for purposes of issuing the ADRs evidencing our ADSs. As of December 31, 2009, a maximum of 1,637,998 ADSs were outstanding (equivalent to 982,798,629 shares of common stock or 1.19% of the total number of issued shares of common stock). Since certain of our ADSs are held by brokers or other nominees, the number of direct record holders in the United States may not be fully indicative of the number of direct beneficial owners in the United States or of where the direct beneficial owners of such shares are resident.

We listed our shares on Latibex, and trading of our shares started on that exchange on October 8, 2002 under the code XBCH, grouped in trading units of 600 shares. In addition, since December 20, 2002, our shares are listed on the LSE.

The table below shows, for the periods indicated, the annual, quarterly and monthly high and low closing prices (in nominal Chilean pesos) of the traded shares of our securities on the Santiago Stock Exchange, the Electronic Stock Exchange, and the Valparaiso Stock Exchange:

	Santiago Stock Exchange Common Stock		Electronic Stock Exchange Common Stock		Valparaiso Stock Exchange Common Stock	
	High	Low	High	Low	High	Low
	(Ch$ per share)[1]		(Ch$ per share)[1]		(Ch$ per share)[1]	
Annual Price History						
2005	Ch$ 37.7	Ch$ 32.0				