BANK OF CHILE
Form 20-F
April 27, 2015
Table of Contents

As filed with the Securities and Exchange Commission on April 27, 2015

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, 2014

Commission file number 001-15266

BANCO DE CHILE

(Exact name of Registrant as specified in its charter)

BANK OF CHILE

(Translation of Registrant s name into English)

REPUBLIC OF CHILE

(Jurisdiction of incorporation or organization)

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

(562) 2637-1111

(Address of principal executive offices)

Rolando Arias Sánchez

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

Telephone: (562) 2653-3535

Facsimile: (562) 2653-2952

(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: 94,655,367,544

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we have based these forward-looking statements on our expectations and projections about future events, it is possible that actual results may differ materially from our expectations. In many cases, we include a discussion of the factors that are most likely to cause forward-looking statements to differ from actual results together with the forward-looking statements themselves. These statements appear throughout this annual report, including, without limitation, under Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects. Examples of such forward-looking statements include:

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

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

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

- changes in general economic, business, political or other conditions in Chile, or changes in general economic or business conditions in Latin America, the United States, Europe or Asia;
- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies;
- increased costs;
- increased competition and changes in competition or pricing environments, including the effect of new technological developments;
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms;

natural disasters;

the effect of tax laws on our business; and

the factors discussed under Risk Factors.

Table of Contents

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

PRESENTATION OF FINANCIAL INFORMATION

We prepare our audited consolidated financial statements in Chilean pesos and in accordance with International Financial Reporting Standards in effect from time to time as issued by the International Accounting Standards Board (IFRS).

Unless otherwise indicated, the financial information included in this annual report with respect to 2010, 2011, 2012, 2013 and 2014 has been derived from financial statements that have been prepared in accordance with IFRS. See Note 2(a) to our audited consolidated financial statements as of and for the year ended December 31, 2014 appearing elsewhere in this annual report. IFRS differs in certain significant respects from Chilean GAAP. As a result, our financial information presented under IFRS is not directly comparable to any of our financial information presented under Chilean GAAP. Accordingly, readers should avoid such comparison.

For comparison purposes and as a result of changes in certain accounting policies, some line items in our consolidated statement of income and balance sheet have been reclassified for the years ended December 31, 2011 and 2012. For more information, see Item 5. Operating and Financial Review and Prospects Critical Accounting Policies New Standards Adopted in 2014 , as well as Notes 3 and 4 to our audited consolidated financial statements as of and for the year ended December 31, 2014 appearing elsewhere in this annual report.

In this annual report, references to $, U.S.$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch$ are to Chilean (see Note 2(t) to our audited consolidated financial statements as of and for the year ended December 31, 2014 appearing elsewhere in this annual report), and references to UF are to Unidades de Fomento. The UF is an inflation indexed Chilean monetary unit of account with a value in Chilean pesos that is linked to and adjusted daily to reflect changes in the Consumer Price Index (CPI) of the Instituto Nacional de Estadísticas (the Chilean National Statistics Institute). As of December 31, 2014 and April 17, 2015, one UF equaled Ch$24,627.10 and Ch$24,690.69, respectively.

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 our audited consolidated financial statements as of and for the year ended December 31, 2014 or could be converted into U.S. dollars at the rate indicated. Until November 30, 2011, Banco de Chile applied the observed exchange rate reported by the Banco Central de Chile (the Central Bank) in order to translate its financial statements from Chilean pesos to U.S. dollars. However, beginning December 1, 2011, Banco de Chile adopted the exchange rate of accounting representation, or spot exchange rate, for such matters. This is also described in Item 3. Key Information Selected Financial Data Exchange Rates. Thus, unless otherwise indicated, the U.S. dollar amounts have been translated from Chilean pesos based on the exchange rate of accounting representation as of December 31, 2014 as determined by our Treasury on a daily basis, based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange. The exchange rate of accounting representation on April 17, 2015 was Ch$612.79 = U.S. $1.00. As of the same date, the observed exchange rate was Ch$612.30 = U.S.$1.00.

The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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

Table of Contents

In this annual report, past-due loans are any loans for which the counterparty has failed to make a payment when contractually due, including installments that are overdue, plus the remaining balance of principal and interest on such loans. In order to distinguish between different overdue time periods, the corresponding time period is included after the term Past-due Loans (for example, Past-due Loans 90 days or more). For more information, please see Item 4. Information on the Company Selected Statistical Information Classification of Loan Portfolio Based on the Borrower s Payment Performance.

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

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

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

Certain figures included in this annual report and in our audited consolidated financial statements as of and for the year ended December 31, 2014 have been rounded for ease of presentation. Percentage figures included in this annual report have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this annual report may vary slightly from those obtained by performing the same calculations using the figures in our audited consolidated financial statements as of and for the year ended December 31, 2014. Certain other amounts that appear in this annual report may similarly not sum due to rounding.

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

MACRO-ECONOMIC AND MARKET DATA

In this annual report, all macro-economic data relating to the Chilean economy is based on information published by the Chilean Central Bank. All market share data, financial indicators and other data relating to the Chilean financial system are based on information published periodically by the SBIF, which is published under Chilean GAAP and prepared on a consolidated basis.

Table of Contents

PART I

Item 1 Identity of Directors, Senior Management and Advisors

Not Applicable.

Item 2 Offer Statistics and Expected Timetable

Not Applicable.

Item 3 Key Information

SELECTED FINANCIAL DATA

The following tables present historical financial information about us as of the dates and for each of the periods indicated. The following tables should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements as of and for the year ended December 31, 2014 appearing elsewhere in this annual report. The financial information for the years ended December 31, 2010, 2011, 2012, 2013 and 2014 is presented under IFRS.

Our audited consolidated financial statements have been prepared in accordance with IFRS for the years ended December 31, 2010, 2011, 2012, 2013 and 2014.

	For the Year Ended December 31,					
	2010	2011	2012	2013	2014	2014
	(in millions of Ch$, except share and per share data)					(in thousands of U.S.$)
IFRS:						
CONSOLIDATED STATEMENT OF INCOME DATA						
Interest revenue	Ch$ 1,092,003	Ch$ 1,501,684	Ch$ 1,672,766	Ch$ 1,765,942	Ch$ 2,045,604	U.S.$ 3,375,083
Interest expense	(324,377)	(624,209)	(708,629)	(704,371)	(788,788)	(1,301,437)
Net interest income	767,626	877,475	964,137	1,061,571	1,256,816	2,073,646
Net fees and commissions income	277,566	290,108	287,272	287,093	272,188	449,089
Net financial operating income	17,163	58,101	16,199	32,672	35,204	58,084
Foreign exchange transactions, net	63,762	(7,973)	35,136	71,457	70,225	115,866
Other operating income	23,584	24,735	20,887	25,884	27,211	44,896
Provisions for loan losses	(157,651)	(146,925)	(166,420)	(221,653)	(261,566)	(431,563)
Total operating expenses	(529,969)	(595,000)	(612,934)	(619,530)	(727,360)	(1,200,086)
Income attributable to associates	1,609	3,054	(468)	1,780	2,486	4,102
Income before income taxes	463,690	503,575	543,809	639,274	675,204	1,114,034
Income taxes	(46,425)	(65,431)	(63,928)	(89,085)	(79,685)	(131,474)
Net income from continued operations, net of taxes	Ch$ 417,265	Ch$ 438,144	Ch$ 479,881	Ch$ 550,189	Ch$ 595,519	U.S.$ 982,560

Net income from discontinued operations, net of taxes						
Net income for the year	Ch$ 417,265	Ch$ 438,144	Ch$ 479,881	Ch$ 550,189	Ch$ 595,519	U.S.$ 982,560
Attributable to:						
Equity holders of the parent	417,264	438,143	479,880	550,188	595,518	982,558
Non-controlling interest	1	1	1	1	1	2
Earnings per share(2)	4.78	4.83	5.28	5.82	6.29	0.010
Earnings per ADS	2,866.79	2,896.33	3,170.05	3,494.31	3,774.87	6.23
Dividends per share(3)	3.50	3.38	3.41	3.90	3.98	0.006
Weighted average number of shares (in millions)	87,330.83	90,765.46	90,827.88	94,471.77	94,655.37	

1

Table of Contents

	For the Year Ended December 31, 2010	2011	2012	2013	2014	2014
	(in millions of Ch$, except share and per share data)					(in thousands of U.S.$)
IFRS:						
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA						
Cash and due from banks	Ch$ 772,329	Ch$ 881,146	Ch$ 684,925	Ch$ 873,308	Ch$ 915,133	U.S.$ 1,509,896
Transactions in the course of collection	429,756	373,639	310,077	300,026	356,185	587,677
Financial assets held-for-trading	279,765	269,861	159,682	326,921	293,458	484,182
Cash collateral on securities borrowed and reverse repurchase agreements	82,787	47,981	35,100	82,422	27,661	45,638
Derivative instruments	488,354	381,055	326,083	374,687	832,267	1,373,174
Loans and advances to banks	349,588	648,425	1,343,322	1,062,056	1,155,365	1,906,260
Loans to customers, net	14,029,968	17,023,756	18,383,958	20,441,472	21,400,775	35,309,566
Financial assets available-for-sale	1,157,105	1,471,120	1,272,316	1,681,883	1,608,796	2,654,385
Investments in other companies	11,072	13,196	11,674	14,407	23,043	38,019
Intangible assets	88,463	81,026	75,610	72,223	66,859	110,312
Property and equipment	204,352	207,888	205,189	197,578	205,403	338,899
Investment properties	17,459	17,079	16,698	16,317	15,936	26,293
Current tax assets	3,363					
Deferred tax assets, net	57,678	60,025	55,801	56,421	94,240	155,488
Other assets	304,425	279,804	317,765	373,987	586,555	967,769
Total assets	Ch$ 18,276,464	Ch$ 21,756,001	Ch$ 23,198,200	Ch$ 25,873,708	Ch$ 27,581,676	U.S.$ 45,507,558
Current accounts and other demand deposits	4,446,181	4,895,426	5,470,971	5,984,332	6,934,373	11,441,161
Transactions in the course of payment	208,750	155,424	72,684	51,898	53,049	87,527
Cash collateral on securities lent and repurchase agreements	81,755	223,202	226,396	256,766	249,482	411,625
Saving accounts and time deposits	7,697,968	9,282,324	9,612,950	10,402,725	9,721,246	16,039,278
Derivative instruments	528,445	429,913	380,322	426,110	827,123	1,364,687
Borrowings from financial institutions	1,281,372	1,690,939	1,108,681	989,465	1,098,716	1,812,793
Debt issued	1,764,165	2,388,341	3,273,933	4,366,960	5,057,956	8,345,223
Other financial obligations	179,160	184,785	162,123	210,926	186,573	307,831
Currents tax liabilities		3,095	23,189	7,131	19,030	31,398
Deferred tax liabilities, net						
Provisions	114,685	131,344	141,839	154,650	185,643	306,296
Employee benefits	55,433	60,634	64,545	67,944	81,515	134,493
Other liabilities	224,225	269,905	305,105	275,762	255,995	422,369
Total liabilities	Ch$ 16,582,139	Ch$ 19,715,332	Ch$ 20,842,738	Ch$ 23,194,669	Ch$ 24,670,701	U.S.$ 40,704,681
Total equity	1,694,325	2,040,669	2,355,462	2,679,039	2,910,975	4,802,877
Total liabilities and equity	Ch$ 18,276,464	Ch$ 21,756,001	Ch$ 23,198,200	Ch$ 25,873,708	Ch$ 27,581,676	U.S.$ 45,507,558

(See footnotes below)

Table of Contents

	As of December 31,				
	2010	2011	2012	2013	2014
IFRS:					
CONSOLIDATED RATIOS					
Profitability and Performance					
Net interest margin[4]	4.87%	4.80%	4.68%	4.67%	5.12%
Return on average total assets[5]	2.37	2.16	2.14	2.25	2.24
Return on average equity[6]	24.98	22.61	21.71	20.67	20.98
Capital					
Average equity as a percentage of average total assets	9.50	9.53	9.85	10.90	10.67
Bank regulatory capital as a percentage of minimum regulatory capital	232.92	245.53	269.50	274.26	279.83
Ratio of liabilities to regulatory capital[7]	12.98	12.30	11.11	10.90	10.65
Credit Quality					
Substandard loans as a percentage of total loans[8]	5.46	2.87	3.31	3.48	3.79
Allowances for loan losses as a percentage of substandard loans[8]	44.33	72.58	62.42	60.52	59.17
Provision for loan losses as a percentage of average loans	1.16	0.92	0.92	1.12	1.21
Allowances for loan losses as a percentage of total loans	2.42	2.09	2.07	2.10	2.24
Operating Ratios					
Operating expenses/operating revenue	46.10	47.89	46.31	41.90	43.77
Operating expenses/average total assets	3.01%	2.93%	2.73%	2.54%	2.73%

(1) Translations of Chilean peso amounts into U.S. dollars are based on the exchange rate of accounting representation, or the spot exchange rate, which is determined on a daily basis by our Treasury, based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange. Thus, amounts stated in U.S. dollars as of and for the fiscal year ended December 31, 2014 have been translated from Chilean pesos based on the spot exchange rate of Ch$606.09 to U.S. $1.00 as of December 31, 2014.

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

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

(4) Annualized net interest income divided by average interest earning assets. The average balances for interest earning assets, including interest and readjustments, have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries. Net interest margin does not include the interest earned on trading securities, which is accounted for under Other Income (Loss), Net.

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

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

(7) Total liabilities divided by bank regulatory capital.

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

Table of Contents

Exchange Rates

As a general matter, prior to 1989, Chilean law permitted the purchase and sale of foreign currency only in those cases explicitly authorized by the Central Bank. The *Ley Orgánica Constitucional del Banco Central de Chile* 18,840 (the Central Bank Act) liberalized the rules governing the purchase and sale of foreign currency. The Central Bank Act empowers the Central Bank to determine that certain purchases and sales of foreign currency specified by law must be carried out in the *Mercado Cambiario Formal* (the Formal Exchange Market). The Formal Exchange Market is composed of banks and other entities so authorized by the Central Bank. The observed exchange rate for any given day equals the average exchange rate of the transactions conducted in the Formal Exchange Market on the immediately preceding banking day, as certified by the Central Bank. Even though the Central Bank is authorized to carry out its transactions at the rates it sets, it generally uses the spot rate for its transactions. Authorized transactions by other banks are generally carried out at the spot rate.

Purchases and sales of foreign exchange are not required to be conducted in the Formal Exchange Market and therefore may be carried out in the *Mercado Cambiario Informal* (the Informal Exchange Market). There are no price limits imposed on transactions carried out in the Informal Exchange Market. On March 31, 2015, the average exchange rate in the Informal Exchange Market was Ch$626.9 per U.S.$1.00, or 0.005% higher than the observed exchange rate of Ch$626.87 per U.S.$1.00 reported by the Central Bank on the same date in 2014.

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

	Daily Observed Exchange Rate Ch$ per U.S.$(1)			
Year	**Low(2)**	**High(2)**	**Average(3)**	**Period End(4)**
		(in Ch$)		
2010	468.37	549.17	510.25	468.37
2011	455.91	533.74	483.67	521.46
2012	469.65	519.69	486.49	478.60
2013	466.50	533.95	495.35	523.76
2014	524.61	621.41	570.37	607.38
October 2014	576.65	599.22	589.98	576.65
November 2014	576.50	600.37	592.46	598.94
December 2014	605.46	621.41	612.92	607.38
2015 (through April 17)	606.75	642.18	622.21	612.30
January 2015	606.75	629.09	620.91	626.48
February 2015	616.86	632.19	623.62	617.67
March 2015	617.38	642.18	628.50	626.87
April 2015 (through April 17)	610.74	626.58	615.82	612.30

Source: Central Bank.

(1) Figures are expressed in nominal terms.
(2) Exchange rates are the actual low and high, on a day-by-day basis for each period.
(3) For full years, the average of monthly average rates during the year. For full months, the daily average during the month.
(4) As reported by the Central Bank on the first business day of the following period.

The observed exchange rate on April 17, 2015 was Ch$612.30 = U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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

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 in the future. Any of the following risks, if they actually occur, could materially and adversely affect our business, results of operations, prospects and financial condition.

We are also subject to market risks that are presented both in this subsection and in Note 42 to our audited consolidated financial statements as of and for the year ended December 31, 2014 appearing elsewhere in this annual report.

Risks Relating to our Operations and the Chilean Banking Industry

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

During the last five years, our total loan portfolio has grown at a compounded average growth rate of 10.7% per year. The expansion in our loan portfolio has been primarily fostered by growth in both residential mortgage and consumer loans, and, to a lesser extent, by an expansion in commercial loans. The growth in our loan book is aligned with our mid-term strategic goals, which seek to diversify our business model and optimize our risk-return relationship. In this regard, we recognize that our focus on the retail banking segment may expose us to higher levels of loan losses and may require us to establish higher levels of allowances for loan losses in the future. For this reason, we are constantly striving to develop and utilize improved risk models and procedures in order to mitigate the risks associated with business growth. For the year ended December 31, 2014, our loan portfolio was Ch$21,891,333 million, which represented a 4.8% annual increase as compared to the Ch$20,880,770 million we recorded as of December 31, 2013. Similarly, our allowances for loans losses increased 11.7% from Ch$439,298 million in 2013 to Ch$490,558 million in 2014. As a result, our ratio of allowances for loan losses to total loans slightly increased over that period, from 2.10% in 2013 to 2.24% in 2014.

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

We cannot assure you that our loan portfolio will continue to grow at the same rates as it has in the past. The loan portfolio of the Chilean banking industry has grown at a compounded average growth rate of 11.8% over the last five years (excluding the operations of subsidiaries abroad). This expansion has been fostered by an overall effort of all market participants to broaden their value offerings and increase banking penetration of lower and middle income segments, as well as small and medium-sized companies. As a result, loan growth has been mainly prompted by the expansion in consumer and mortgage loans, and to a lesser extent by growth in commercial loans. These efforts have also been supported by the positive cycle observed in the Chilean economy over the same five-year period. However, a slowdown or negative GDP growth, as well as a change in the behavior of banking customers, could adversely affect the growth rate of the industry and, therefore, the expansion of our loan portfolio while affecting our credit quality indicators and, accordingly, leading us to increase the allowances for loan losses. For more information, see Item 4. Information on the Company Regulation and Supervision and Item 4. Information on the Company Selected Statistical Information.

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

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

Pursuant to the *Ley General de Bancos* (the General Banking Law) all Chilean banks may, subject to the approval of the SBIF, engage in certain non-banking businesses approved by the law. The SBIF s approval will depend on the risk of the activity and the strength of the bank. Furthermore, the General Banking Law imposes on the Chilean banking system a modified version of the capital adequacy guidelines issued by the Basel Committee on Banking Regulation and Supervisory Practices (the Basel Committee) and limits the discretion of the SBIF to deny new banking licenses.

In recent years the Chilean government has focused on consumer protection. Thus, between 2010 and 2014, a number of legal and administrative regulations have been enacted, amended and revoked in order to reinforce consumer protection in all relevant aspects of the financial relationship between consumers and financial institutions. In this regard, and for any other general matters, we cannot assure 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 results of operations or financial condition in a fashion that we cannot determine in advance. See Item 4. Information on the Company Regulation and Supervision.

Regarding Basel III, the SBIF has suggested these guidelines may be implemented in Chile in the future, which could impose new requirements for all Chilean banks, including us. In fact, the Chilean Ministry of Finance has announced that the implementation of Basel III is a priority for the current administration and, therefore, a set of amendments to the General Banking Law will be presented for approval to the Chilean congress. In addition to Basel III, the Finance Ministry has announced that these amendments will also include changes in the corporate governance of the SBIF, reinforcing the independence of the local regulator and establishing a dispute resolution system for Chilean banks. However, it is not clear yet as to when and how Basel III will finally be implemented in Chile, since the SBIF has also recognized the possibility of adapting these rules to the local market. Similarly, there is no certainty as to when the changes to the General Banking Law could go into effect. Despite this, we do not expect this regulatory body will affect our profitability or results of operations in 2015. Nevertheless, we cannot ensure that these new rules will not affect our financial performance in the future, if adopted.

In regards to liquidity, during 2014, the Chilean Central Bank released a proposal of new liquidity standards for local banks, which is based on Basel III guidelines. After receiving comments for the proposed set of rules, the Central Bank published a final version in January of 2015. In addition, the SBIF is the institution empowered to put these guidelines into practice and monitor them on an ongoing basis. Accordingly, in February of 2015, the SBIF introduced a draft of these rules for comment and discussion. The first stage of these new liquidity requirements is intended to improve the information in quantity and quality about the situation of banks without imposing specific limits. Nevertheless, regulatory thresholds are expected to be defined and implemented by 2016. Although this new regulatory body will not affect our operations and results for the year ended December 31, 2015, we cannot be sure that the new liquidity requirements will not have a material impact on our financial condition or results of operations.

As for credit risk allowances, on December 30, 2014 the SBIF published a set of amendments to the regulations on allowances for potential loan losses. These new rules establish a standardized method for calculating provisions for loan losses for residential mortgage loans, based on past-due behavior and loan-to-value ratios, while supplementing and defining provisioning rules for the impaired loan portfolio. In addition, this set of rules also addressed the possibility of putting into practice standardized credit risk provisioning models for consumer and commercial loan portfolios evaluated on a grouped basis. Lastly, the new guidelines also introduced changes to the treatment of provisions related to factoring loans. This new set of rules will go into effect on January 1, 2016. It is important to mention that the implementation of standardized credit risk provisioning models would only have an effect if any on our results of operations or financial condition prepared under Chilean GAAP, which differ to some extent from IFRS as issued by the IASB. The adoption of these guidelines will not have any impact on our results of operations or financial condition under IFRS.

Increased competition and industry consolidation may adversely affect our operations.

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

Table of Contents

We also face competition from non-banking competitors in some of our credit products, especially credit cards and consumer loans. In these markets, competition from non-banking companies like large department stores, private compensation funds and saving and credit cooperatives has become increasingly significant. In addition, we face competition from other types of lenders, 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. Nevertheless, banks continue to be the main suppliers of leasing, factoring and mutual fund management, while growing quickly in insurance brokerage services. However, we cannot assure you that this trend will continue in the future.

Lastly, in the past, increasing competition within the Chilean banking industry has been accompanied by a consolidation wave and the entry of international players to the system through multiple mergers and acquisitions. We expect these trends will continue and result in the creation of larger and stronger banking conglomerates offering a wide range of products and services while targeting most of the segments in the Chilean banking market. These trends may adversely impact our results of operations as they may translate into higher interest rates paid on deposits and lower interest rates earned on loans, resulting in decreased net interest margins.

See Item 4. Information on the Company Business Overview Competition.

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

Although we have historically been focused on wholesale banking, over the last five years we have reoriented our commercial strategy to increase our focus on the retail and the wholesale banking segments. Accordingly, the share of the retail banking segment in our total loan book has increased from 45.7% in 2009 to 53.6% in 2014. Although this trend has been associated with expansion in middle and higher income personal banking, our retail banking segment is also composed of small and medium-sized companies (approximately 11.4% of our total loan book as of December 31, 2014, which consists of companies with annual sales of up to Ch$1,600 million) and, to a lesser extent, of lower-income individuals (approximately 3.7% of our total loan book as of December 31, 2014, which consists of individuals with monthly incomes ranging from Ch$170,000 to Ch$500,000). These customers are likely to be more severely affected by adverse developments in the Chilean economy than large corporations and higher-income individuals. Consequently, in the future, we may be exposed to higher levels of past-due loans and subsequent write-offs, which could result in materially higher allowances for loan losses that could adversely affect our results of operations.

As of December 31, 2014 our past-due loans (loans 90 days or more past-due) reached Ch$272,983 million, which represented a 15.3% annual increase as compared to the Ch$236,730 million recorded in 2013. Also, as of December 31, 2014 our past-due loans (loans 90 days or more past-due) were composed of 80.6% retail banking 90 days or more past-due loans (consumer and residential mortgage loans to individuals, as well as commercial loans to small and medium sized companies) and 19.4% wholesale banking 90 days or more past-due loans (commercial loans to large companies and corporations). During the prior fiscal year, our past-due loans (90 days or more) portfolio was composed of 79.1% retail banking past due loans (90 days or more) and 20.9% wholesale banking past due loans (90 days or more).

The annual increase of Ch$36,253 million in the amount of past-due loans (90 days or more) was mainly attributable to the retail banking segment, including both SME and personal banking. In fact, 78.3% of the annual variance was attributable to past-due loans (90 days or more) in retail banking and the remaining 21.7% of the annual variance was attributable to past-due loans (90 days or more) in the wholesale banking segment past-due loans. This is in line with the growth displayed by both segments within our total loan book. Additionally, the higher delinquency in retail banking loans was generally aligned with a less robust economic environment, which worsened with the economic slowdown of 2014. Although certain indicators that directly affect the retail banking segment such as unemployment remained at positive levels during 2014, there was a counterbalance between the employed and self-employed work force. Moreover, diverse surveys have reflected the negative outlook held by individuals with respect to the local economy. In light of these trends, we have tightened the entire credit process, from assessment to collection, while introducing stricter requirements related to collateral, financial burden, loan-to-value, etc. Nonetheless, we cannot assure you the trend in past-due loans (90 days or more) will not continue if global or local economic conditions deteriorate in the future.

Table of Contents

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

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

As of December 31, 2014, *Sociedad Administradora de la Obligación Subordinada S.A.* (SAOS), our affiliate, held 30.21% of our shares as a consequence of our 1996 reorganization. This reorganization was due in part to the 1989 repurchase by the Central Bank of certain non-performing loans that we had previously sold to the Central Bank and later exchanged for subordinated debt without a fixed term. For more information, see Item 4. Information on the Company History and Development of the Bank History The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt.

In exchange for assuming the Central Bank debt, SAOS received from SM-Chile S.A. (SM-Chile), a holding company that controls SAOS, a stake of 63.6% of our shares as collateral for this debt. Dividends received from us are the sole source of SAOS s revenues, which in turn must be used to repay this debt. To the extent distributed dividends were not sufficient to pay the amount due on this debt, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If this cumulative deficit balance exceeds 20% of our paid-in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of our shares to pay the entire amount of the accumulated deficit. As of March 31, 2015, SAOS maintained a surplus with the Central Bank of Ch$484,560 million, equivalent to 19.2% of our paid-in capital and reserves as of the same date.

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

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

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

The results of our operations depend to a great extent on our net interest income, which represented 75.5% of our total operating revenues in 2014. Changes in nominal interest rates and inflation could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, resulting in net income reduction. Inflation and interest rates are highly sensitive to several factors beyond our control, including the Central Bank s monetary policy, deregulation of the Chilean financial sector, domestic and international economic and political conditions, among other factors. Any volatility in interest rates could have a material adverse effect on our financial condition and results of operations.

The average annual short-term nominal interest rate in Chile for 90 to 360 day deposits received by Chilean financial institutions was 5.90% in 2012, 5.20% in 2013, and 3.91% in 2014. The average long-term nominal interest rate based on the interest rate of the Central Bank s five-year bonds traded in the secondary market was 5.34% in 2012, 5.20% in 2013 and 4.43% in 2014.

Inflation in Chile has been moderate in recent years, especially in comparison with periods of high inflation experienced in the 1980s and 1990s. High levels of inflation in Chile could adversely affect the Chilean economy, consumer purchasing power, household consumption and investment in machinery and equipment and, therefore, the demand for financing and our business. The annual inflation rate (as measured by annual changes in the CPI and as reported by the Chilean National Institute of Statistics) during the last five years and the first three months of 2015 was:

Year	**Inflation (CPI Variation)**
2010	3.0
2011	4.4
2012	1.5
2013	3.0
2014	4.6
2015 (through March 31)	1.1%

Source: Chilean National Institute of Statistics

Table of Contents

Although we benefit from a higher than expected 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), significant changes in inflation with respect to current levels could adversely affect our results of operations and, therefore, the value of both our shares and ADSs.

For more information, see Item 5. Operating and Financial Review and Prospects Operating Results Overview Inflation and Item 5. Operating and Financial Review and Prospects Operating Results Overview Interest Rates.

Operational problems, errors, criminal events or terrorism may 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 suitable internal authorizations, failure to properly document transactions, equipment failures, errors made by employees and natural disasters, such as earthquakes, tsunamis and floods. Furthermore, we are exposed to criminal events or terrorist attacks resulting in physical damage to our buildings (including our headquarters, offices, branches and ATMs) and/or injury to customers, employees and others. Although we maintain a system of operational controls composed of world-class human and technological resources, as well as comprehensive contingency plans and security procedures, there can be no assurances that operational problems, errors, criminal events or terrorist attacks will not occur and that their occurrence will not have a material adverse impact on our results of operations, financial condition and the value of our shares and ADSs.

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

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

We depend on a variety of Internet-based data processing, communication, and information exchange platforms and networks. We cannot assure you that all of our systems are entirely free from vulnerability. Additionally, we enter into contracts with several third parties to provide our customers with data and communication services. Therefore, if information security is breached, or if one of our employees breaches compliance procedures, information could be lost or misappropriated, which may affect our results of operations, damage others or result in potential litigation.

We are also exposed to the risk of cyber-attacks and other cybersecurity incidents in the normal course of business. There has been an increased level of attention focused recently on cyber-attacks against large corporations that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating cash, other assets or sensitive information, corrupting data or causing operational disruption. Cybersecurity incidents such as computer break-ins, phishing, identity theft and other disruptions could negatively affect the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us in excess of insurance coverage, and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of service providers, intend to continuously implement security technology devices and establish operational procedures to prevent such damage, we cannot assure you that these security measures will be successful.

Table of Contents

We may lose revenue if we are unable to renew our global connectivity agreement with Citigroup Inc.

On December 27, 2007, we entered into a global connectivity agreement with Citigroup Inc. (as amended, the Global Connectivity Agreement). The Global Connectivity Agreement enables us and our clients to become part of Citigroup s global network and provides a framework for us, Citigroup and our respective affiliates to direct certain types of business to our companies. The Global Connectivity Agreement sets forth the terms of our relationship with respect to investment banking services and other services such as international personal banking, cash management and treasury operations, among others. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

The Global Connectivity Agreement expires on January 1, 2016. We cannot predict if this agreement will be renewed, or if it is renewed, what the renewal terms would be. Although we would continue to provide the services governed by the Global Connectivity Agreement even if it is not renewed, any loss of the exclusivity or referral provisions in the Global Connectivity Agreement could result in significantly less revenues from the services listed above and any profits we would generate from these services. Our preliminary estimates suggest that the potentially lost revenues (net of direct costs associated with services provided to customers) directly related to these services could be as much as U.S.$12.5 million per year.

Risks Relating to our ADSs

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

As of April 17, 2015, LQ Inversiones Financieras S.A. (LQIF), a holding company beneficially owned by Quiñenco S.A. and Citigroup Chile S.A., holds directly and indirectly approximately 51.2% of the voting rights of our shares. These principal shareholders are in a position to elect a majority of the members of our board of directors, direct our management and control all matters decided by a shareholder vote, including the approval of fundamental corporate transactions.

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

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

While our ADSs have been listed on the New York Stock Exchange (the NYSE) since the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will be sustained. During 2014, a daily average volume of 67,287 of our American Depositary Receipts (ADRs) were traded on the NYSE, according to data provided by Bloomberg. Although our shares are traded on the Santiago Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange, the Chilean market for our shares in Chile is small and somewhat illiquid. As of April 17, 2015 approximately 25.1% of our outstanding shares were held by shareholders other than our principal shareholders, including LQIF, SM-Chile, SAOS and Ergas Group.

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

You may be unable to exercise preemptive rights.

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

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

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

The market price of our ADSs and shares may be adversely affected by volatility in international financial markets and adverse global economic conditions. The market for Chilean securities and the Chilean economy as a whole are, to diverse extents, influenced by economic and market conditions in the United States, Europe and certain emerging market economies, especially Asian countries, and also economic as well as political developments in Latin American countries. Although economic conditions are different in each country, investors reactions to specific issues in one country may affect the financial markets in others, including Chile. Therefore, unfavorable developments in other countries especially in developed economies and Chile s main commercial partners may adversely affect the market price of our ADSs and shares.

In particular, since August 2007, there has been significant volatility in worldwide financial markets due to consequences from the announcement, by several U.S. banks and financial institutions, of significant write-downs related to their exposure to mortgage-backed securities and other financial instruments. This situation, also known as the subprime crisis, translated into several and significant government bail-outs for important banks worldwide, bankruptcy for some others and an active M&A market in the financial industry intended to maintain the confidence of investors and customers, as well as avoiding bank runs. Although the Chilean economy was not directly exposed to the U.S. housing credit market and historically we have not directly held any assets related to such financial instruments, the subprime crisis impacted the Chilean economy by the end of 2008, including banking activity. Currently, the U.S. economy seems to be overcoming the effects of the subprime crisis, as evidenced by recovering mid-term growth rates and improving employment and consumption indicators, while the Federal Reserve is tapering the quantitative easing monetary policy it has used for the past several years. However, we cannot assure you that these past developments will not occur again in the future or that any future developments in international markets will not affect us, including our results of operations and, consequently, the market price of our ADSs and shares.

Financial deterioration in certain European countries was another indirect effect of the subprime crisis that occurred in the United States. Our exposure to European sovereign debt is not significant; however, we cannot assure you that volatility in global financial markets due to the uncertainty regarding the fiscal condition of certain European countries will not continue and affect the Chilean economy and consequently the financial condition and results of operations of the entire Chilean banking system, including us. Accordingly, the price of our ADS could be adversely affected by a new financial turmoil in the Eurozone, political issues, armed conflicts, a slower than expected recovery, or a deterioration in healthier economies, such as Germany, that could translate into increasing volatility and uncertainty all over the world.

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

Equity investments held in Chile by non-Chilean residents have historically been subject to various exchange control regulations that restrict the repatriation of investments and earnings from Chile. In April 2001, the Central Bank eliminated most of the regulations affecting foreign investors, although they 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 can neither determine in advance nor advise you as to when or how those restrictions could impact you if imposed.

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

Table of Contents

Risks Relating to Chile

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

Our core business and transactions are with customers doing business in Chile. Accordingly, our ability to grow our business volumes and results of operations, as well as enhance our financial condition, in general, depends on the dynamism of the Chilean economy and specific macroeconomic variables such as inflation, unemployment, interest rates, consumption and investment. The global financial crisis of 2008 that dramatically affected the economic growth in developed countries also affected the Chilean economy by the end of 2008 and during the first three quarters of 2009. This translated into a subsequent slowdown in the local banking industry due to lower levels of consumption and deteriorated credit quality in loan portfolios prompted by unemployment and financial stress experienced by certain economic sectors. Conversely, between 2010 and 2012 the local economy and the banking industry evidenced a significant upturn, fostered by real GDP growth that averaged 5.7% per year, mainly as a result of the recovery in consumption and investment, as well as higher fiscal spending associated with the reconstruction process after a significant earthquake in 2010. During 2013, the Chilean economy entered into a moderate slowdown by recording a 4.2% GDP expansion, which deepened throughout 2014 as both corporate and individual confidence continued to deteriorate. The slowdown was explained in part by both slower growth of Chile s main commercial partners, especially China, and uncertainty associated with diverse reforms presented by the recently appointed administration that affected investment and consumption. Accordingly, the Chilean economy grew by only 1.9% in 2014, which was influenced by a 6.1% contraction in investment that was offset by a 2.2% expansion in private consumption. Although Chilean economic growth continues to be positive, we cannot assure you that the local economy will continue expanding in the future or that developments affecting the Chilean economy and the local banking industry will not materially affect our business, financial condition or results of operations. For more information, see Item 5. Operating and Financial Review and Prospects Operating Results Overview .

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

The Chilean Government s economic policies and any future changes in the value of the Chilean peso with respect to the U.S. dollar could affect the dollar value of our common stock and our ADSs. Given the floating exchange rate regime that exists in Chile, the Chilean peso has been subject to large fluctuations in the past and could continue this trend in the future. According to information published by the Chilean Central Bank, between December 31, 2013 and December 31, 2014, the value of the U.S. dollar relative to the Chilean peso increased by approximately 16.0%, as compared to the increase of 9.4% recorded in the period from December 31, 2012 to December 31, 2013. See Item 3. Key Information Exchange rates.

Chilean trading in the shares underlying our ADSs is conducted in Chilean pesos. Cash dividends associated with 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 making payments in respect of our ADSs. If the value of the U.S. dollar increases relative to the Chilean peso, the dollar value of our ADSs and any distributions to be received from the depositary will decrease. In addition, the depositary will incur customary currency conversion costs (to be borne by the holders of our ADSs) in connection with the conversion and subsequent distribution of dividends or other payments. For more information, see Item 10. Additional Information Exchange Controls.

Our results of operations may be affected by fluctuations in the exchange rates between the Chilean peso and the U.S. dollar despite our policy and Chilean regulations related to the general avoidance of material exchange rate mismatches. In order to reduce the effect of exchange rate mismatches we enter into foreign exchange derivative transactions that hedge our exposure. As of December 31, 2014, our foreign currency-denominated assets and Chilean peso-denominated assets, which contain repayment terms linked to changes in foreign currency exchange rates, exceeded our foreign currency-denominated liabilities and Chilean peso-denominated liabilities, which contain repayment terms linked to changes in foreign currency exchange rates, by an amount of Ch$9,979 million, or 0.42% 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 by regulatory institutions. Higher exchange rate mismatches will increase our exposure to the devaluation of the Chilean peso, and any such devaluation may impair our capacity to service foreign-currency obligations and may, therefore, materially and adversely affect us, our financial condition and results of operations. Additionally, the economic policies of the Chilean Government and any future fluctuations of the Chilean peso with respect to the U.S. dollar could adversely affect our financial condition and results of operations.

Table of Contents

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

Chilean disclosure requirements for publicly listed companies differ from those in the United States in some significant aspects. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, the Chilean securities markets are not as highly regulated and closely supervised as the U.S. securities markets. Accordingly, the information about us available to you will not be the same as the information available to shareholders of a U.S. company. For more information, see Item 16G. Corporate Governance.

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

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

Recent changes in the Chilean tax system could impact the profitability of investments held by foreign and local investors.

In September 2014, the Chilean congress approved a law reforming the Chilean tax system. This tax reform (Law N° 20,780, defined terms in this risk factor are used as defined therein) gradually increases the first category tax or corporate tax rate between 2014 and 2018 while establishing two alternative tax regimes from 2017 onwards: (i) the Semi-Integrated Regime and (ii) the Attribution Regime. The tax reform increases the statutory corporate tax rate from 20.0% in 2013 to 21.0% in 2014, 22.5% in 2015 and 24.0% in 2016. From 2017 onwards, the statutory corporate tax rate will depend on the tax regime chosen by the owners of the taxpayer (the company). If the Semi-Integrated regime is selected, the company will be subject to a statutory corporate tax rate of 25.5% in 2017 and 27.0% from 2018 onwards. If, instead, the Attribution regime is selected, the company will be subject to a statutory corporate tax rate of 25.0% from 2017 onwards. At this time, we cannot anticipate which regime we will select in the future.

The tax reform will also affect the taxes levied on dividends received by investors that hold shares of common stock or ADS from 2017 onwards. Under the Semi-Integrated Regime, holders of shares or ADS will pay taxes on the dividends effectively received from the company (withholding tax of 35% for foreign investors and a general regime tax for local investors). Foreign investors from DTAT (Double Taxation Avoidance Treaty) countries will be able to use 100% of the corporate tax paid by the company as a tax credit. However, local investors and holders from non-DTAT countries will be permitted to use 65% of the corporate tax paid by the company as a tax credit. Accordingly, the effective tax rate paid by local (individual) investors or foreign holders could increase up to 44.5%. Under the Attribution Regime, holders of shares or ADS will pay taxes (withholding tax of 35.0% for foreign investors and personal taxes for individual local holders) on their proportional participation in the earnings before taxes generated by the company, regardless of whether cash dividends are distributed or not. Holders of shares or ADS will be permitted to use 100% of the corporate tax paid by the company as a tax credit.

Lastly, stock dividends (distributions on fully paid-in shares) are currently tax exempt when distributed. Under the new tax law, regardless of the regime that the owners of the company ultimately chooses, stock dividends will be subject to taxation. Furthermore, the new tax income law introduces certain changes to the treatment of capital gains associated with the sale of shares received as stock dividends.

For more information, see Item 10. Additional Information Taxation Chilean Tax Considerations.

Labor strikes or slowdowns could adversely affect our operations because the majority of our employees belong to labor unions.

We are a party to collective bargaining agreements with various labor unions. Disputes with regard to the terms of these agreements or our potential inability to negotiate acceptable contracts with these unions could result in, among other things, strikes,

Table of Contents

work stoppages, or other slowdowns by the affected workers. If unionized workers were to engage in a strike, work stoppage, or other slowdown, or other employees were to become unionized, we could experience disruption of our operations or higher ongoing labor costs, either of which could have a material adverse effect on our results of operations. See Item 6. Directors, Senior Management and Employees Employees.

On December 29, 2014 the government sent a labor reform bill to the Chilean congress for discussion and approval. The government stated that this bill was intended to strengthen and give more power to Chilean unions while prohibiting the replacement of workers during strikes. As a result, unions would enhance their negotiation position in collective bargaining processes. In addition, the reform involved some changes to the current labor framework by introducing certain flexibility in the contractual relationship between workers and companies. There is currently no certainty as to when and how this bill, if passed by the congress, will go into effect and, therefore, we cannot assure you that this bill will not have a material effect on our business.

Item 4 Information on the Company

History and Development of the Bank

Overview

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

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

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

(i) retail banking;

(ii) wholesale banking;

(iii) treasury and money markets; and

(iv) subsidiaries.

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

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

As of December 31, 2014, we also offered international banking services through our Trade Services subsidiary in Hong Kong, our representative office in Beijing, and a worldwide network of correspondent banks. However, we have begun a voluntary dissolution process for our Trade Services subsidiary in Hong Kong that we expect to complete before the end of 2015.

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

According to the SBIF, as of December 31, 2014 and excluding the operations of subsidiaries abroad, we were the second largest bank in Chile in terms of total loans with a market share of 18.1%, the largest provider of commercial loans with a market share of 18.0%, the second largest provider of consumer loans with a market share of 20.9% and the second largest privately owned bank in terms of residential mortgage loans with a market share of 17.1%. Also, as reported by the SBIF, we were the largest bank in terms of net income with a market share of 23.8% and the first bank in terms of current account balances held by individuals with a market share of 28.9%, both as of December 31, 2014. Lastly, according to the Chilean Association of Mutual Funds, as of December 31, 2014 we were the largest provider of mutual funds management with a market share of 22.5%.

As of December 31, 2014 we had:

- total assets of Ch$27,581,676 million (approximately U.S.$45,507.6 million);
- total loans of Ch$21,891,333 million (approximately U.S.$36,118.9 million), before deducting allowances for loan losses;
- total deposits of Ch$16,655,619 million (approximately U.S.$27,480.4 million), of which Ch$6,934,373 million (approximately U.S.$11,441.2 million) correspond to current account and demand deposits;
- equity (including net income, non-controlling interest and provisions for minimum dividends) of Ch$2,910,975 million (approximately U.S.$4,802.9 million);
- net income of Ch$595,519 million (approximately U.S.$982.6 million); and
- market capitalization of approximately Ch$6,702,547 million (approximately U.S.$11,058.67 million).

As of December 31, 2014, we had 14,803 employees and delivered financial products and services through a nationwide distribution network of 429 branches, and 1,460 Automatic Teller Machines (ATMs) that are part of a larger ATM network operated by Redbanc S.A. (a company owned by us and 11 other privately owned banks) that consists of 8,029 ATMs.

History

We were founded in 1893 as a result of the merger of Banco Nacional de Chile, Banco Agrícola and Banco de Valparaíso, which created the largest privately owned bank in Chile. We have played an important role in the economic history of Chile. Before the creation of the Central Bank in 1926 and prior to the enactment of the General Banking Law, we were the main stabilization agent of the Chilean banking system, a role that is now performed by the Chilean Central Bank. Beginning in the early 1970s, the Chilean Government assumed control of a majority of Chilean banks, and all but one of the foreign banks that were operating at that time closed their branches and offices within the country. Throughout this era, we remained as a privately-owned bank, with the exception of a portion of our shares owned by the Chilean Government that were sold to private investors in 1975. Throughout our history we have developed a well-recognized brand name in Chile and expanded our operations in foreign markets, where we developed an extensive network of correspondent banks. In the early twentieth century, we established a representative office in London, which we maintained until 1985, when our operations in Europe were moved to Frankfurt. The office in Frankfurt was closed in 2000, when our foreign operations were centralized at the New York branch. In 1987 and 1988, we established four subsidiaries to provide a full range of specialized financial products and services as permitted by the General Banking Law. In 1999, we widened our scope of specialized financial services by creating our insurance brokerage and factoring subsidiaries. According to our estimates, we remained the largest private bank in Chile until 1996. During the early 2000s, the Chilean banking

15

industry witnessed intense merger and acquisition activity. In 2002, we merged with Banco de A. Edwards, which allowed us to expand our business to new customer segments. In 2008, we sold our U.S. branch to Citigroup in connection with our merger with Citibank Chile that was carried out during the same year. As a result of these consolidations, we currently operate a distribution network that is composed of three brand names, namely, Banco de Chile (which operates throughout Chile), Banco Edwards-Citi (which is primarily oriented to higher income segments) and Banco CrediChile (which is focused on consumer loans and demand accounts for lower and middle income segments). In 2012, we became the market leader in net income and the most profitable bank (the highest return on average equity and average capital and reserves) within the Chilean banking industry, according to information released by the SBIF. Similarly, among our peers we were the bank with the best credit quality indicators in terms of past-due loans (90 days or more), provisions for loan losses over average loans and coverage of past-due loans (loans 90 days or more past-due). Also, during 2012 we maintained our leadership in mutual funds and current accounts for individuals, while our investment banking subsidiary maintained the market leading position in corporate bond placements within the local market, according to information available at the Chilean Association of Mutual Funds, the SBIF and the SVS, respectively. In terms of funding diversification, we improved our access to foreign debt markets by placing senior bonds in Hong Kong and Peru for a total aggregate amount of approximately U.S.$193 million. Similarly, we established a commercial paper program in the U.S. market of U.S.$1,000 million.

In 2013, we continued to enhance our competitive advantages. As a result, we completed a very successful year by leading the industry in operating revenues for the first time in our recent history and net income, according to information published by the SBIF. These achievements enabled us to remain the most profitable bank in Chile in terms of return on average equity and average assets. Our leading position in net income was also a consequence of our market leading performance in expenses, which allowed us to reach the lowest efficiency ratio in the local industry, according to information published by the SBIF. Also, in order to maintain a convenient and well diversified liability structure, we have continued to seek alternative financing opportunities, especially overseas. In this regard, during 2013 we carried out four placements in Switzerland for a total amount of approximately U.S.$785 million. Also, we established a U.S.$2,000 million medium term notes program (the MTN Program) in Luxembourg. Under this program we issued medium term notes in Hong Kong and Japan for approximately U.S.$168 million and U.S.$167 million, respectively.

In 2014, growth in the Chilean economy decreased, which in turn affected investment and the growth of commercial loans during the first two quarters of the year and private consumption by the end of the year. Amid this slowdown, we took advantage of our competitive strengths and continued to optimize our risk-return relationship by keeping our credit risk under control and developing innovative commercial strategies. As a result, we remained at the top of the industry in terms of net income generation and return on average equity, according to information published by the SBIF as of December 31, 2014. In order to achieve these goals, we improved customer experience by launching cutting-edge mobile banking solutions and applying world-class business intelligence methodologies. Furthermore, we continued to diversify our funding structure by issuing long term bonds in Switzerland, Japan and Hong Kong, while taking advantage of our U.S.$ Commercial Paper program to raise short-term funds. Lastly, we recorded a 15.9% annual expansion in current accounts and demand deposit (year-end balances) that enabled us to rank first in these liabilities within the local banking industry, according to information released by the SBIF as of December 31, 2014. These figures were reflected by the interest of investors in Banco de Chile s stock, which recorded an 86.5% annual increase in trading volumes (excluding the effect of the LQIF secondary offering), the highest increase among all publicly listed Chilean banks.

Merger with Banco de A. Edwards

On December 6, 2001, our shareholders approved our merger with Banco de A. Edwards, which became effective on January 1, 2002. Banco de A. Edwards had been listed on the NYSE since 1995, and in January 2002, we were listed on the NYSE under the symbol BCH. Since 2002, our shares have also been traded on the Latin American Stock Exchange of the Madrid Stock Exchange (Latibex) and the London Stock Exchange (LSE). We concluded the merger process with the consolidation of a new corporate structure and the integration of our technological platforms. As for Latibex, on October 18, 2013, we voluntarily delisted our trading units from that market.

Table of Contents

Merger with Citibank Chile

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

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

Technological Projects

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

During 2013, we focused on ensuring the stability of our IT systems and implementing improvements to key processes in order to provide our customers with better service quality. Accordingly, the main IT projects undertaken in 2013 had to do with: (i) upgrading our Internet-based array of services, in order to significantly improve the availability of our Internet platforms for personal and corporate banking, (ii) setting up a security device (chip) in credit cards that should enable us to reduce the rate of fraud in this business and maintain our industry-leading position in these matters, (iii) improving the uptime of ATMs, (iv) enhancing product-related platforms for factoring, insurance, time and demand deposits, and (v) strengthening credit-assessment and granting by implementing the final stages of a new system of financial evaluation for companies and optimizing required documentation for lending.

In 2014, we devoted our efforts to developing technological solutions to provide our customers with better services while improving the performance of our primary systems and operating processes. In relation to IT innovations for customers, during 2014 we developed and released a bundle of mobile applications for smartphones called MiBanco|MiPago|MiBeneficio. These applications enable our customers to carry out diverse banking and payment transactions directly from their mobile phones. As for the performance of IT systems, throughout 2014 we improved our operating systems that support credit card transactions and electronic money transfers. We also completed the first stage of our accounting control system and replaced some of our existing credit cards with new ones that include a microchip for enhanced security. In addition, in relation to the optimization of our main operating processes, we focused on reducing the potential for manual data-entry mistakes, which represents an important source of our operational risk.

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

Table of Contents

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

During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability that required the Central Bank and the Chilean Government to provide assistance to most Chilean private sector banks, including us. During this period, we experienced significant financial difficulties. In 1985 and 1986, we increased our capital and sold shares representing 88% of our capital to more than 30,000 new shareholders. As a result, no single shareholder held a controlling stake in the Bank. In 1987, the SBIF returned complete control and administration of the Bank to our shareholders and our Board of Directors by ending our provisional administration based on our successful capital increases as required by Law 18,401.

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

The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch$1,531,390 million (in real terms as of December 31, 2014), required that a certain percentage of our income before provisions for the subordinated debt be applied to repay this obligation. The Central Bank subordinated debt did not have a fixed maturity, and payments were made only to the extent that we earned income before provisions for the subordinated debt. In 1993 we applied 72.9% of our income before provisions to repay the Central Bank subordinated debt. In 1994 we applied 67.6%, and in 1995 we applied 65.8% of our income before provisions to repay the Central Bank subordinated debt.

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

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

In exchange for assuming the Central Bank debt, SAOS received from SM-Chile 63.6% of our shares as collateral. Although shares held by SAOS as collateral have economic rights that belong to the Chilean Central Bank, their voting rights are exercised by SM-Chile s shareholders. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. Subsequently, as of December 31, 2014 the percentage of our shares held by SAOS declined to 30.21%, as a result of: (i) capital increases agreed to an Extraordinary Shareholders Meetings held in May 2007, January 2011 and October 2012, (ii) stock dividends paid in May 2006, May 2007, June 2009, April 2011, June 2012, May 2013, and July 2014, and (iii) our merger with Citibank Chile in January 2008.

Dividends received from us are the sole source of SAOS s revenues, to be applied by legal mandate to repay its debt to the Central Bank of Chile. SAOS does not have any other material debt, as it is a special purpose legal entity created by Law 19,396 whose only business is to own Banco de Chile shares and repay the obligation to the Central Bank of Chile. To the extent distributed dividends are not sufficient to pay the amount due on its debt, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our paid in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock to pay the entire accumulated deficit amount. As of March 31, 2015, SAOS maintained a surplus with the Central Bank of

Ch$484,560 million, equivalent to 19.2% of our paid in capital and reserves as of the same date. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Banking Industry Our affiliate may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends

As of December 31, 2014, the outstanding subordinated debt balance held by SAOS was Ch$565,552 million (including accrued interest). SAOS paid to the Central Bank a total of Ch$124,342 million in 2012, Ch$151,560 million in 2013 and Ch$145,123 million in 2014, exceeding in each of those years the required minimum annual payment.

As of December 31, 2014, the major shareholder of SM-Chile was LQ Inversiones Financieras S.A. (a subsidiary of Quiñenco S.A.), which owned, directly and indirectly, 58.2% of SM-Chile s total shares. As of the same date, our major shareholders were SAOS LQ Inversiones Financieras S.A. and SM-Chile, each having a direct participation of 30.2%, 25.7% and 12.8% in our total common stock, respectively. On January 31, 2014, LQ Inversiones Financieras S.A. (our major shareholder) closed the sale of 6,700,000,000 shares of Banco de Chile through a public secondary offering, which resulted in a 7.20% decrease of their ownership interest in Banco de Chile. Accordingly, as of April 17, 2015, LQ Inversiones Financieras S.A. directly owned 25.71% of our shares and held, directly and indirectly, 51.17% of the voting rights in Banco de Chile.

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

Capital Expenditures

The following table sets forth our capital expenditures in each of the three years ended December 31, 2012, 2013 and 2014:

	For the Year Ended December 31,		
	2012	**2013**	**2014**
		(in millions of Ch$)	
BANK S INTERNAL REPORTING POLICIES:			
Computer equipment	Ch$ 7,750	Ch$ 7,509	Ch$ 22,776
Furniture, machinery and installations	8,949	4,303	8,292
Real estate	337	62	
Vehicles	945	375	445
Subtotal	17,981	12,249	31,513
Software	9,116	5,511	5,382
Total	**Ch$ 27,097**	**Ch$ 17,760**	**Ch$ 36,895**

Our budget for capital expenditures for 2015 is Ch$57,729 million. Of this amount, expenditures in information technology investments represent 63.7%, while infrastructure projects represent the remaining 36.3%. The budget for capital expenditures is in line with our strategic priorities of improving our efficiency and reinforcing our proximity to customers, particularly in our retail banking segment, through physical as well as remote contact channels. These capital expenditures will be principally financed by cash on hand and long-term debt financing.

Among the budgeted expenditures for information technology, 36.6% corresponds to new and ongoing IT projects intended to provide us with business solutions as well as productivity improvements, 15.2% is related to critical projects involved in our mid-term IT plan, while the remaining 48.2% consists of investment in technological equipment and improvements or renewal of our ATMs nationwide network.

Our 2015 budget for infrastructure expenditures includes disbursements associated with renovation and restoration of our main building, implementation and relocation of commercial branches and general maintenance investments.

19

Table of Contents

BUSINESS OVERVIEW

Our Competitive Strengths

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

Our main competitive strengths are:

Brand Recognition and Strong Corporate Image

We have operated in the Chilean financial industry for 121 years under the Banco de Chile brand name. In order to provide our customers with specialized value offerings and a wider range of financial products and services, we have also developed the Banco Edwards|Citi , Banco CrediChile and Banchile brand names. We believe our long standing history in the Chilean market is recognized by our customers and the general public, who associate us with quality, reliability and social responsibility within the Chilean financial industry, as demonstrated in various polls conducted by well-known market research companies. According to market research conducted by Adimark GFK (part of the GFK Group), during 2014 we remained the most recognized brand among financial institutions operating in Chile. Also, in 2014, Merco (a corporate reputation monitor headquartered in Spain) ranked Banco de Chile as the leader in corporate reputation for all companies operating in Chile. We believe that our long history in the Chilean banking industry is a key element that differentiates us from our competitors.

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

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

Business Scale and Leading Market Position

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

	As of December 31, 2014	
	Market Share	**Market Position**
Commercial Loans(1)	18.0%	1st
Average Balances of Total Demand Deposits and Current Account(1)	23.5%	1st
Current Accounts Balances held by Individuals	28.9%	1st
Mutual Funds (Assets Under Management)	22.5%	1st
Net Fees and Commissions Income	19.5%	1st
Net Income for the Period	23.8%	1st

Source: SBIF and Chilean Association of Mutual Funds.

(1) Excluding operations of subsidiaries abroad.

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

Table of Contents

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

We believe our financial strength, prestige and brand recognition among Chilean customers have allowed us to become the market leader in terms of current account balances within the Chilean financial system, especially among individuals, who have demonstrated their preference for our services. Our position was further consolidated in the financial downturn that started in 2008, when we benefited from a flight-to-quality effect as investors were seeking a reliable institution to keep their funds.

Broad Customer Base and Nationwide Distribution Network

We believe that we have one of the largest customer bases among financial institutions in Chile. We have been able to expand our customer base by implementing attractive and tailored value offerings based on continuously improving segmentation. As of December 31, 2014, we had approximately 2,858,000 customers, including approximately 1,164,000 borrowers, roughly 721,000 current accounts holders, nearly 124,000 time deposit holders, approximately 377,000 saving account holders and approximately 1,496,000 credit card holders. In 2014, we introduced modifications to our definition of customer. Thus, our customer base is composed of the sum of individuals and companies holding at least one or a combination of the following products: a loan, a current account, a credit card or a demand account.

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

In order to better serve our customers, we are present in all regions of Chile and strive to be accessible to every Chilean customer through our large branch network as well as non-physical contact channels. As of December 31, 2014, we had a nationwide branch network of 429 branches, the second-largest in Chile among non-governmental banks, according to information published by the SBIF. This network is composed of 254 branches under our Banco de Chile brand name, 39 branches under our Banco Edwards|Citi brand name and 136 branches under our Banco CrediChile brand name. We believe that our branch network enables us to develop close relationships with our customers and therefore we are constantly assessing new branch locations throughout Chile.

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

We have also enhanced our branch network with non-physical remote channels, such as ATMs, Internet-based online platforms and mobile banking applications. As of December 31, 2014, we had 1,460 ATMs throughout Chile.

Diversified Value Offering of Financial Products and Services

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

- securities brokerage,
- mutual funds management,
- securitization,
- financial advisory,
- insurance brokerage,
- collection services,
- credit pre-evaluation services, and
- trade services.

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

All of the above is supplemented by tailored service models based on the needs of consumers across all of our markets.

Competitive Funding Structure

We believe that we have a cost effective and highly competitive funding structure based on our leading market position in current accounts and demand deposits, especially among individuals. According to the SBIF, as of December 31, 2014, we held a market share of 28.9% in individuals current account balances, ranking first within the Chilean banking industry. As of that same date and according to information published by the SBIF, the total balance of our non-interest bearing current accounts and demand deposits represented 25.1% of our total funding structure, as compared to the 17.5% reported by the Chilean financial system as a whole, excluding Banco de Chile.

Our funding structure provides us with a cost advantage over many of our competitors (which use a higher proportion of interest bearing liabilities), as current accounts and demand deposits are the cheapest funding source available in Chile, since they are non-interest bearing. Also, due to our high international credit rating we have one of the lowest costs of funding from liabilities associated with interest bearing deposits and long-term debt, among the seven largest banks in Chile.

We are constantly striving to diversify our liability structure in order to maintain a competitive cost of funding and improve our liquidity. During 2014 we completed two long-term debt placements in Switzerland for a total amount of Ch$174,530 million (approximately U.S.$288 million). Under a medium term notes program that we registered with the Luxembourg Stock Exchange in 2013, we issued approximately Ch$66,742 million (around U.S.$110 million) of medium term notes in Japan and Ch$43,044 million (around U.S.$71 million) of medium term notes in Hong Kong. Also, we continued to use our Commercial Paper Program in the United States by issuing approximately

Ch$1,090,340 million (nearly U.S.$1,799 million). As of December 31, 2014 we had a balance of roughly Ch$378,806 million (approximately U.S.$625 million) of outstanding commercial paper. Lastly, during 2014, we were very active in the local debt market and issued long-term bonds for a total amount of Ch$451,966 million (approximately U.S.$746 million).

Table of Contents

Superior Asset Quality

We are one of the Chilean financial institutions with the highest credit quality and the healthiest loan portfolio in Chile. We believe this asset quality is the result of our well known prudent risk management approach and accurate credit risk models that are continuously being updated and have enabled us to maintain relatively low levels of past-due loans (90 days or more) and high coverage indicators over the last few years. According to the SBIF, as of December 31, 2014, we had a delinquency ratio (past-due loans (90 days or more) as a percentage of total loans) of 1.25%, which was well below the delinquency ratio of 2.32% reported by the Chilean banking industry (excluding Banco de Chile) as of the same date. Additionally, we maintain one of the highest coverage ratios (allowances for loan losses over past-due loans (90 days or more)) in the Chilean banking industry, which as of December 31, 2014 was equal to 1.9 times.

Our Business Strategy

Purpose

We are a company that contributes to the economic development of the country by generating favorable conditions for the development of individuals and enterprises, providing them with financial solutions that fit their needs.

Mission

We are a leading and globally-connected corporation with a prestigious business tradition. We provide excellent financial services to each type of customer by offering creative, fast and effective solutions for each segment, and ensuring that we add value for our customers, shareholders, employees and community as a whole.

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

This mission also requires initiatives to achieve comprehensive excellence in management, with customer satisfaction as our major goal. We use high industry standards in information technology, business models and quality, all of which is summarized by the value creation cycle below:

Table of Contents

Vision

We aspire to be, in all things we do, the best bank for our customers, the best place to work and the best investment for our shareholders. In order to accomplish this vision, we are committed to the development of our employees and the community as a whole.

Throughout our history, we have aspired to be a leading bank in the Chilean financial system. This vision involves and commits us to all of the diverse stakeholders related to our business, namely, customers, employees, investors and the community. Our vision is shared and internalized by all areas across the corporation, senior management and the board of directors and constitutes the basis for our strategic objectives.

Commitments

We aim to satisfy the expectations of diverse stakeholders by:

Our Customers

- Offering innovative and top-quality banking products and financial services.
- Providing customers with excellent service based on customized relationships and a proactive attitude.
- Ensuring the availability and stability of physical and non-physical service channels.
- Maintaining trusted relationships in order to be our customers main bank.

Our Employees

- Providing employees with career opportunities based on merit.
- Promoting a respectful and friendly work environment.
- Offering competitive compensation and economic benefits.
- Supplying adequate technological tools and infrastructure.

Our Community

- Improving quality of life and managing adversity.

Strengthening the quality of education in Chile.

Promoting entrepreneurship.

Protecting the environment.

Building strong relationships with suppliers.

Our Shareholders

Leading the industry in net income generation and profitability.

Maintaining a strong market position in terms of business volume.

Fostering operating efficiency and productivity.

Developing a prudent approach to risk management.

Table of Contents

Strategic Priorities

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

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

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

Lead the Retail Banking Business

In our retail banking segment, our aim is to lead the market by providing differentiated and comprehensive value offerings based on a deep and continuously improving segmentation that permits us to engage in profitable and high-growth potential business opportunities. Thus, we expect to expand our business and customer base by developing tailored service models, enlarging our branch network, enhancing our presence in the small and medium companies market and reinforcing certain lending products that should enable us to consolidate long-term relationships with our upper and middle-income individual customers, especially through payment channels usage (such as credit cards), installment loans and residential mortgage loans. Similarly, we aspire to target lower-income individuals and microbusinesses by promoting payroll-deduction lending and attracting customers previously unattached to any bank through a basic array of services, as well as providing commercial credit.

Following the trend of the past several years, in 2014 we prioritized growth in middle and upper income segments in personal banking because we recognized potential risks for low income individuals due to the slowdown observed in the local economy over the last two years. For this reason, we implemented diverse business intelligence tools and commercial methodologies in 2014 in order to achieve a more accurate segmentation of our customer base and develop tailored offers to meet the needs of middle and higher income individuals. Thus, among less risky individuals, we promoted growth in transactional services, especially credit cards, which enabled us to increase loan related balances by 13.8% on an annual basis. Similarly, installment loans increased by 10.3% for middle and upper income individuals while mortgage loans recorded an overall 14.7% increase among these customers.

Notwithstanding the above, we continued to expand the array of financial services that we provide to lower income individuals and microbusinesses, segments that have not been fully penetrated by banks yet. In this regard, the CajaChile network which provides lower income customers with a suite of basic financial services through a transactional platform located in local convenience stores finished 2014 with more than 2,600 convenience stores participating in its network. Similarly, our unit of Microbusinesses Banking strengthened during 2014 and ended the year with an annual expansion of approximately 18.0% in total loans.

These initiatives are intended to take advantage of the retail banking segment s growth potential. Even though Chile s per capita GDP has tripled over the last 25 years, banking penetration in the Chilean economy is still below comparable countries, particularly within the low and middle income population segments and with respect to certain banking products such as residential mortgage loans. We believe we can grow further in this segment since, according to the SBIF, as of December 31, 2014, we had a 17.1% market share in residential mortgage loans and a 20.9% market share in consumer loans, both below the market stake held by the market leader. As for consumer loans, due to our effective strategies focusing on middle and upper income segments, the gap

Table of Contents

between us and the market leader decreased from 3.7% as of December 31, 2013 to 3.6% as of December 31, 2014 . With respect to residential mortgage loans, however, the gap between us and the market leader increased from 3.6% as of December 31, 2013 to 3.8% as of December 31, 2014. This increase is aligned with our prudent approach to risk-taking. Given the boost observed in the housing market over the last five years, during 2014 we tightened the entire credit process, from admission to collection, and imposed stricter conditions to granting mortgage loans in order to maintain a balanced risk return relationship.

Despite our efforts to increase market penetration of Retail Banking, especially in lending products, we believe that the fierce competition in the banking industry compels us to innovate in terms of new products and services to diversify our revenue sources. Accordingly, we have strived to build comprehensive value offerings for our retail segment, prioritizing fee based income. As a result, our consolidated income from fees and other services has become an important source of revenue for us, reaching Ch$287,093 million (or 19.4% of our total operating revenues) in 2013 and Ch$272,188 million (or 16.4% of our total operating revenues) for the year ended December 31, 2014. We aim to generate increasing amounts of fees and commission revenue by developing innovative products and services and reinforcing cross-selling, in spite of a complex regulatory environment.

Lead the Wholesale Banking Business

In our wholesale banking segment (which targets companies with annual sales over Ch$1,600 million), we aim to maintain our leading market position in terms of loans, as well as achieve higher profitability in a market that is characterized by low margins. We intend to accomplish these goals by increasing our cross-selling of non-lending products and services through various initiatives. We are focused on improving our offering of cash management services, enhancing our internet-based services, increasing the penetration of products designed by our treasury and money market operations segment, enhancing our presence in certain lending products such as leasing and factoring and promoting international businesses by taking advantage of the commercial synergies related to both our merger with Citibank Chile (such as the Global Connectivity Agreement with Citigroup) and the specialized financial services offered by our subsidiaries, such as securities brokerage, mutual funds management and financial advisory in order to appropriately meet the needs of certain niches within this business segment.

As a result, according to our management information system, we increased our cross selling indicator of non-lending revenues to lending revenues from 1.3 times in 2009 to 1.7 times as of December 31, 2014. We expect to continue enhancing our cross-sell indicators in order to optimize the profitability of the wholesale banking segment. This achievement took place together with the growth managed in our Large Companies and Real Estate Division (annual turnover between Ch$1,600 and Ch$70,000 million), with average balance of total loans increasing by 8.1% on an annual basis. This was the result of an aggressive plan intended to enhance the closeness with the customer through a dual model of service that includes several on-site visits by account officers and credit risk analysts.

We also promote diverse services such as leasing, factoring and cash management in this segment. Based on this view, we remained one of the leaders in these markets in 2014, ranked second in both factoring and leasing services with market shares of 20.7% and 20.6%, respectively (including operations of subsidiaries abroad). Regarding cash management services, during 2014 we increased volumes related to collection and payment agreements by approximately 14.4% and 2.3%, respectively.

Also, in our effort to offer tailor-made solutions and recognize the needs of different customer segments, during 2013 we defined a new group of customers called Family Office . This group includes companies that manage investments and trusts for a single family that we aim to target through a comprehensive model of service, including the interaction between our Wholesale Banking Segment and our subsidiary Banchile Inversiones. During 2014, we focused on penetrating this sub-segment. Accordingly, we developed and implemented relationship-building strategies for customers and non-customers belonging to this segment, which involved on-site visits and new means to stay in contact with these individuals. As a result, we were able to significantly increase our presence in this market during 2014 by expanding average balances of loans and deposits granted to and received from this segment by 40% and 15%, respectively.

In our treasury and money market operations segment, we intend to take advantage of our specialized knowledge in order to increase the penetration of widely-used products in our current customer base while offering innovative products to potential clients.

Table of Contents

Also, we continuously seek newer and more convenient funding choices, locally and internationally, in order to support our long term business strategy by promoting an adequate diversification of our funding structure.

Improve Service Quality

We are convinced that in a highly competitive industry such as the Chilean banking system, a customer-centric focus is critical to generating loyalty and creating long-term, profitable relationships. We believe that our high service quality is a competitive strength that differentiates us from competitors and supports our long term strategy by responding to the preferences of our current and potential customers. Accordingly, we strive to continuously improve our relationships with customers by developing commercial strategies aligned with their needs, as well as improving our response time and customer satisfaction indicators.

Consistent with this view, during 2014 we sought to design and develop a project intended to significantly improve our customers experiences. This project encompasses a renewed strategy to approach the customer, based on an internationally-renowned methodology that seeks to enhance our commitment to service quality. Although this project involves several stages, the main aspects we tackled in 2014 were associated with: (i) defining the involvement of the front and back-office units that mainly impact the customer experience, (ii) carrying out workshops of collective creation with customers in order to evaluate their needs, (iii) understanding the emotional response of customers to our brand names Banco de Chile , Banco Edwards|Citi and Banco Credichile , (iv) identifying the most important moments for customers in their relationship with the Bank, and (v) prioritizing a bundle of initiatives intended to improve customer experience in the mid-term.

Also, this project involves diverse communications activities across the Bank in order to promote a corporate culture focused on service quality and customer experience optimization while enhancing the commitment of our employees to customer satisfaction.

Promote Operating Efficiency

We believe that operating efficiency is a key competitive advantage that we have to maintain in order to grow profitably. Accordingly, our strategy for efficiency intends to achieve the highest productivity and the tightest cost control. We believe these elements will be increasingly important in our efforts to maintain high profitability ratios in a changing business environment that is under increasing regulatory focus. To accomplish these goals, we have invested in information technology and the development of simpler, more manageable, secure and modern business processes and platforms to attain faster response times and higher productivity. We also continue to enhance our strategic development capabilities, increase our business scale, develop economies of scope by incorporating new financially related businesses, reinforce the productivity of our branch network, enhance our remote transactional channels, improve our credit processes, develop a higher level of automation in our internal processes and consolidate our cost control policy and monitoring procedures.

In 2012, 2013 and 2014, we invested a total of approximately Ch$58,100 million (approximately Ch$16,900 million, Ch$13,000 million and Ch$28,200 million in 2012, 2013 and 2014, respectively) in information technology, mainly software and hardware, as we believe this is one of the best ways to improve our service quality and operating efficiency while properly fitting customers needs, which are increasingly linked to IT services. Similarly, we are continuously developing and optimizing internal processes in order to reduce and keep our expenses under control.

We continue to focus on improving operating efficiency through diverse projects intended to improve the quality and responsiveness of internal operating processes, such as increased automation of back-office matters and the implementation of new IT platforms for financial planning, controlling and commercial tasks. We also seek to improve security in transactional services to reduce operational risks, using anti-fraud security software for electronic transfers and other security measures to avoid attacks on our network of ATMs.

As a result of these initiatives, our efficiency ratio, measured as consolidated operating expenses over consolidated operating revenues, has maintained suitable levels over the last three years. During 2012, 2013 and 2014, our efficiency ratio was 46.3%, 41.9% and 43.8%, respectively. Based on information published by the SBIF, under Chilean GAAP, as of December 31, 2014 we had the second lowest efficiency ratio in the local banking industry.

Enhance our Social Reputation

We believe that improving our social reputation is crucial to meet our strategic goals in the midst of societal changes in Chile and worldwide, so we aim to create improved mechanisms in order to build positive connections with our communities. Therefore, we have undertaken a wide range of initiatives intended to encourage active participation in different areas of society. This view is shared by the Bank and its employees, who support the development of Chile through diverse methods such as promoting social progress, contributing to environmental protection, decreasing extreme poverty, providing high-quality education to needy people, assisting disabled young people, fostering cultural development and embracing campaigns intended to overcome the effects of specific adverse events such as natural disasters.

In line with this view, during 2014 we continued to support different social endeavors by collaborating with Desafío Levantemos Chile , which is an initiative intended to promote entrepreneurship throughout Chile and especially within lower income segments. In 2014, we maintained our support for the School of Entrepreneurs network that has permitted the training of several micro-entrepreneurs, thereby improving the quality of life for their families. In addition, we have maintained our commitment to disabled people by supporting Teleton Foundation, assisting disabled children and disabled athletes and artists. During 2014 our country faced dramatic natural disasters, such as an earthquake in the northern region and devastating fire in Valparaiso. Aligned with our social commitment to face adversity, we participated, along with Desafío Levantemos Chile , in fundraising campaigns while directly assisting affected people by providing working tools and equipment to restore their productive capacity and income sources. Similarly, we continued to support needy people by contributing to improve quality of education across lower income segments through Astoreca Foundation. In this regard, a new school managed by this foundation was opened in 2014. This educational center will be attended by 1,200 children. Finally, we are also committed to cancer patients through a partnership with a public hospital and a local university, in order to improve the quality and quantity of treatments received by these patients.

Alignment of Human Resources and Culture

We believe human resources are a key element of our long-term goals. In order to consolidate profitable growth, achieve high standards of service quality, attain operating efficiency and build an excellent corporate reputation over the long run, we must have a motivated and highly qualified workforce committed to our corporate values, including ethical conduct, responsibility, integrity, prudence, justice, loyalty and respect.

Accordingly, we strive to develop a distinctive culture among our employees by promoting: (i) a clear focus on the customer, (ii) confidence and responsibility, (iii) leadership and empowerment, (iv) collaboration and teamwork and (v) innovation and continuous improvement.

We also seek to remain one of the most respected employers in Chile. For this reason, we have recently undertaken diverse projects and initiatives intended to emphasize our commitment to recruiting and retaining excellent employees, including a new platform that manages the internal mobility of our employees. Also, we have improved our competence evaluation methodology to identify remarkable employees and enhance their career development. As for training activities, we have continued to focus on generating leadership capabilities through diverse programs. We believe these initiatives are aligned with our strategy and the professional development that our team aspires to achieve.

During 2014, we continued strengthening the connection with our employees in order to align corporate values and goals with their career development and personal goals. In line with this view, our Human Resources Division worked on three main pillars: (i) Being the Best Bank, (ii) Performance Excellence, and (iii) Banco de Chile s Way. In relation to Being the Best Bank , we focused on enhancing the recruitment and selection processes while improving the experience of new and current employees in the use of benefits. Similarly, the division was focused on reinforcing performance excellence across the corporation by putting several training programs into practice, while determining and promoting the potential of current collaborators to lead the Bank in the future. Finally, concerning the third pillar, Banco de Chile s Way , the divisions strived to spread and foster the commitment of employees to our corporate values in order to make them part of the day-to-day processes and activities of the bank s employees.

Table of Contents

Ownership Structure[1]

The following diagram shows our ownership structure as of April 17, 2015:

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

Table of Contents

Principal Business Activities

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

The information related to our business segments presented in this section has been prepared in accordance with our internal reporting policies. See Item 5. Operating and Financial Review and Prospects Results of Operations for the Years Ended December 31, 2012, 2013 and 2014 Business Segments and Item 5. Operating and Financial Review and Prospects Results of Operations for the Years Ended December 31, 2012, 2013 and 2014 Summary of Differences between Internal Reporting Policies and IFRS for a description of the most significant differences between our internal reporting policies and IFRS.

The following table sets forth information on the composition of our loan portfolio and our consolidated income before income tax in accordance with our internal reporting policies for the year ended December 31, 2014, allocated among our principal business segments:

BANK S INTERNAL REPORTING POLICIES:	Total Loans		Income before Income Tax[1]
	For the Year Ended December 31, 2014 (in millions of Ch$, except percentages)		
Retail market	Ch$ 11,722,981	53.6%	Ch$ 284,379
Wholesale market	10,142,486	46.4	289,752
Treasury and money market operations			42,441
Operations through subsidiaries	11,181		34,036
Other (Adjustments and Eliminations)			
Total	**Ch$ 21,876,648**	**100.0%**	**Ch$ 650,608**

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

Table of Contents

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

	For the Year Ended December 31, 2012	2013	2014
BANK S INTERNAL REPORTING POLICIES:		(in millions of Ch$)	
Retail market	Ch$ 842,088	Ch$ 923,222	Ch$ 1,002,133
Wholesale market	338,406	403,063	480,051
Treasury and money market operations	32,735	16,307	47,051
Operations through subsidiaries	122,698	126,576	134,964
Other (adjustments and eliminations)	(13,873)	(13,143)	(17,797)
Total Operating Revenues	**Ch$ 1,322,054**	**Ch$ 1,456,025**	**Ch$ 1,646,402**

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, 2012	2013	2014
BANK S INTERNAL REPORTING POLICIES:		(in millions of Ch$)	
Chile	Ch$ 1,335,862	Ch$ 1,469,110	Ch$ 1,664,185
Banking operations	1,213,229	1,342,592	1,529,235
Operations through subsidiaries	122,633	126,518	134,950
Foreign operations	65	58	14
Operations through subsidiaries	65	58	14
Other (adjustments and eliminations)	(13,873)	(13,143)	(17,797)
Total Operating Revenues	**Ch$ 1,322,054**	**Ch$ 1,456,025**	**Ch$ 1,646,402**

Retail Banking Segment

Our retail banking segment serves the financial needs of individuals and small and medium sized companies through our branch network. As of December 30, 2014, we had 293 branches that operate under our Banco de Chile and Banco Edwards|Citi brand names and 136 branches that operate within the Banco CrediChile network. As of December 31, 2014, loans granted by our retail banking segment amounted to Ch$11,722,981 million and represented 53.6% of our total loans as of the same date.

In terms of composition, as set forth in the following table, as of December 31, 2014 our retail segment s loan portfolio was principally focused on residential mortgage loans, which represented 46.2% of the segment s loan book. The remaining loans were distributed between consumer (28.5%) and commercial loans (25.3%).

	As of December 31, 2014 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Commercial loans	Ch$ 2,969,933	25.3%
Residential mortgage loans	5,410,778	46.2
Consumer loans	3,342,270	28.5
Total	**Ch$ 11,722,981**	**100.0%**

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

Individual and SME Banking Unit Commercial Division

The Individual and SME Banking Unit is responsible for offering financial services to individuals with monthly incomes over Ch$500,000 (or Ch$ 6.0 million per year) and to small and medium sized companies with annual sales of up to approximately Ch$ 1,600 million. This division manages the portion of our branch network that operates under the brand names Banco de Chile and Banco Edwards Citi and had 293 branches as of December 31, 2014.

The strategy followed by the Individual and SME Banking Unit is mainly focused on sub segmentation, multi brand positioning, cross sell of lending and non-lending products and service quality based on customized service models for specific customer needs. Also, loyalty programs have been increasingly incorporated into our commercial targets for each sub segment and they have enabled us to increase the use of our credit cards and our fee-based income. In addition, the division s operations count on the support of specialized call centers, mobile and Internet banking services, along with a wide range of management tools that allow us to measure returns, the performance of cross sold products and the effectiveness of marketing campaigns.

During 2014, the Individual and SME Banking Unit was focused on developing new commercial strategies and marketing tools to provide our customers with better service while improving productivity and profitability. In this regard, the unit carried out a comprehensive revision of pricing procedures by implementing world-class business intelligence tools. This initiative permitted us to record historical levels of Internet loan sales of approximately Ch$270,000 million, which represents a twofold increase over the amount recorded in 2013. Furthermore, this business unit was in charge of launching a new mobile banking solution named MiBanco|MiPago|MiBeneficio. These mobile applicators permit our retail customers to execute banking transactions such as electronic money transfers, access account balances and make cash advances from credit cards to current accounts, among other services.

As of December 31, 2014, the Individual and SME Banking Unit served 1,097,113 individual customers (hereafter customer should be understood as the sum of individuals and companies holding at least one or a combination of the following products: a loan, a current account, a credit card or a demand account) and 110,574 small and medium sized Chilean companies. This customer base resulted jointly in total loans granted to 738,110 borrowers, which included 104,268 residential mortgage loans debtors, 92,411 commercial loan debtors, 377,763 utilized lines of credit and 335,433 installment loans. As of the same date, the division held 719,527 current accounts, 144,565 savings accounts and 223,558 time deposits.

As of December 31, 2014, loans granted by the Individual and SME Banking Unit were Ch$10,904,496 million, which represented 49.8% and 93.0% of our total loans and loans granted by our retail market segment, respectively, as a whole. The following table sets forth the composition of the unit s loan portfolio in accordance with our internal reporting policies, as of December 31, 2014:

BANK S INTERNAL REPORTING POLICIES:	As of December 31, 2014 (in millions of Ch$, except percentages)	
Commercial loans		
Commercial credits	Ch$ 2,401,689	22.0%
Leasing contracts	324,520	3.0
Other loans	215,576	2.0
Total Commercial Loans	**2,941,785**	**27.0**
Residential Mortgage Loans	**5,334,500**	**48.9**
Consumer Loans		
Installment loans	1,554,617	14.2
Credit cards	802,385	7.4
Lines of credit and other loans	271,209	2.5
Total Consumer Loans	**2,628,211**	**24.1**
Total	**Ch$ 10,904,496**	**100.0%**

We offer a variety of financial services to individuals and small and medium-sized companies, directly through the division or indirectly through our subsidiaries, such as current accounts, automatic bill payment, debit cards, credit cards, revolving credit lines, residential mortgage loans, consumer loans, commercial loans, mortgage loans for general purposes, leasing agreements, factoring services, mutual funds management and stock brokerage, support in foreign trade transactions, payments and collections, insurance brokerage (which includes life and casualty insurance), savings instruments 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 afford the goods or services purchases, such as cars, travels and household furnishings. Consumer loans may be denominated in both pesos and UF, bear fixed or variable interest rates and are generally repayable in installments over a period of up to 36 months.

As of December 31, 2014, we had Ch$1,554,617 million in installment loans granted by our Individual and SME Banking Unit, which accounted for 46.5% of the retail market business segment s consumer loans. Most of these installment loans are denominated in Chilean pesos and are payable monthly.

Residential Mortgage Loans

As of December 31, 2014, we had outstanding residential mortgage loans of Ch$5,418,623 million, which represented 24.8% of our total loans. According to information published by the SBIF, as of December 31, 2014, we were Chile s second largest privately owned bank in terms of mortgage loans, accounting for approximately 17.1% of mortgage loans granted by the Chilean banking industry, excluding operations of banks subsidiaries that operate abroad.

Our residential mortgage loans are generally denominated in UF and have maturities ranging from five to thirty years. As of December 31, 2014, the average residual maturity of our residential mortgage loan portfolio was 17.1 years. Originally, we funded our residential mortgage loans through the issuance of mortgage finance bonds, which are recourse obligations only to us with payment terms that are matched to the residential loans. Also, the mortgage finance bonds bear real market interest rates plus a fixed spread over the variable rate of the UF, which permits us to reduce our exposure to interest rate fluctuations and inflation. Chilean banking regulations allow us to finance up to 100% of a residential mortgage loan with mortgage finance bonds, based on the purchase price of the property securing the loan or the appraised value of such property. In addition, we generally require that the monthly payments on a residential mortgage loan not exceed 25% of the borrower s household after tax monthly income, when the customer belongs to the low income population segment. However, that limit may be adjusted for the middle and high income population segments.

Over the last decade, we have also promoted the expansion of *Mutuos Hipotecarios*, a mortgage lending product, which is not financed by mortgage finance bonds, but instead through our general funds. *Mutuos Hipotecarios* allow customers to finance up to 100% of the purchase price or the appraised value of the property, whichever is lower, instead of the 75% that a standard mortgage would allow. As of December 31, 2014, our residential mortgage loan portfolio was principally composed of *Mutuos Hipotecarios*, as customers have preferred them due to their flexibility and simplicity (for instance the interest rate is known in advance by the customer, which is not the case of mortgage finance bonds that are traded in the secondary market and, therefore, subject to discounts), as they permit financing of up to 100% of the properties purchase price and are easier to prepay.

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

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2014 (in millions of Ch$, except percentages)**	
Secured Residential Mortgage Loans[1]		
Loans financed with *Mortgage Bonds*	Ch$ 70,104	1.3%
Mutuos Hipotecarios	5,348,519	98.7
Total Secured Residential Mortgage Loans	**Ch$ 5,418,623**	**100.0%**

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

As shown above, as of December 31, 2014 residential mortgage loans related to *Mutuos Hipotecarios* represented 98.7% of our total residential mortgage loan portfolio, while the remaining 1.3% corresponded to mortgage loans financed with *Mortgage*

Table of Contents

Bonds. As of the same date, the *Mutuos Hipotecarios* portfolio had an average origination period of 4.2 years (the period from the date when the loans were granted to the specified date) and just 1.1% of these loans were granted by CrediChile. Conversely, as of December 31, 2014 loans financed with *Mortgage Bonds* had an average origination period of 13.9 years (the period from the date when the loans were granted) and 26.0% of these loans were granted by CrediChile. In terms of credit risk, in 2014, loans related to *Mutuos Hipotecarios*, as well as those financed with *Mortgage Bonds*, had low gross (before recoveries) credit risk ratios of 0.17% and 0.26%, respectively. The difference between both ratios is explained by the previously mentioned factors and also by the Bank s stricter requirements to grant *Mutuos Hipotecarios*. It is important to mention that the residential mortgage loan portfolio financed with *Mortgage Bonds* is annually decreasing in amount and as a proportion of the total residential mortgage loan portfolio, since currently customers prefer *Mutuos Hipotecarios*. Accordingly, the portfolio of residential mortgage loans financed with *Mortgage Bonds* is expected to have increasing gross credit risk ratios over time until its expiration, because the portion of non-performing loans becomes higher as long as responsible borrowers terminate their liability with the bank.

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

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

Credit granting Requirements

(in millions of Ch$, except percentages)

New Clients	**Requirements (in millions of Ch$, except percentages)**	
Loan / Property value	**£ 90%**	**> 90%**
Employed		
Years employed	> 1 year	> 2 years
Monthly Income	> Ch$0.5	> Ch$1.0
Self-Employed		
Years Employed[(1)]	> 2 years	> 3 years
Monthly Income	> Ch$0.5	> Ch$1.2

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

During 2014, 27.8% of the residential mortgage loans granted to our customers financed between 90% and 100% of the property value. Similarly, during 2014, loans financing between 75% and 90% of the property appraised value represented 41.5% of these loans, loans financing between 50% and 75% of the property value represented 24.1% of these loans, and loans financing less than 50% of the property value represented 6.7% of these loans. It is important to mention that during 2014 we continued tightening our credit granting policy for residential mortgage loans by restricting the loan financing limit as a percentage of the property s value. This explains the decrease in the share of residential mortgage loans that financed between 90% and 100% of the property value from 46.8% in 2012 to 33.4% in 2013 and 27.8% in 2014.

Table of Contents

An additional feature of our mortgage loans is that mortgaged property typically secures all of the mortgagor s credit with us, including installment loans and due balances associated with credit cards and credit lines. Our total amount of loans secured by real estate guarantees, their loan to value (LTV) ratio and their relative share in our total loan portfolio, as of December 31, 2014, are depicted in the table below:

	As of December 31, 2014		
BANK S INTERNAL REPORTING POLICIES:	**Outstanding Balance**	**LTV(2)(3)**	**% of Bank s Total Loans**
	(in millions of Ch$, except percentages)		
Secured Loans(1)			
Residential Mortgage Loans	Ch$ 5,418,623	70.5%	24.8%
Other than mortgage loans	642,597	28.3	2.9
Total Secured Loans	**Ch$ 6,061,220**	**78.8%**	**27.7%**

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

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

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

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2014 (in millions of Ch$, except percentages)**	
Secured Other-than-Mortgage Loans(1)		
Consumer Loans	Ch$ 415,698	64.7%
Credit Lines	57,619	9.0
Credit Cards	169,280	26.3
Total Secured Other-than-Mortgage Loans	**Ch$ 642,597**	**100.0%**

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

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

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

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

Table of Contents

Credit Cards

As of December 31, 2014, we issued both individual and corporate Visa, MasterCard and Diners Club credit cards. In addition to traditional credit cards, our portfolio also includes co-branded cards. As of December 31, 2014 we had four cobranding agreements for our credit cards, namely Travel Club , Global Pass , Advantage and Entel. Credit cards issued under these cobranding agreements supplemented the credit cards that we issued under the brand names Banco de Chile, Banco Edwards|Citi and Banco CrediChile. As of the same date, we had 32 affinity card groups, most of which were associated with our co-branded programs.

Two of our affiliates, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2014, Transbank S.A. had twelve shareholders and Nexus S.A. had seven shareholders, all of which were banks. As of the same date, our equity ownership in Transbank S.A. was 26.2% and our equity ownership in Nexus S.A. was 25.8%.

As of December 31, 2014, we had 1,496,301 valid credit card accounts, with 1,674,690 credit cards issued to individuals and small and medium sized companies. Total charges on our credit cards during 2014 amounted to Ch$2,987,114 million, with Ch$2,455,734 million corresponding to purchases in Chile and abroad and Ch$531,380 million corresponding to cash withdrawals both within Chile and abroad. These amounts of purchases and withdrawals (which include charges associated with credit cards issued by CrediChile) accounted for 25.4% of the total charge volume of banks credit cards in Chile in 2014, according to statistics provided by Transbank S.A.

As of December 31, 2014, our credit card loans to individuals and small and medium sized companies amounted to Ch$802,385 million and represented 24.0% of our retail market business segment s consumer loans.

We believe that the Chilean market for credit cards has a high growth potential, especially among lower and middle income customer segments, as the average merchant fees should continue to decline due to increasing competition from other banks that operate in Chile, as well as large department stores and other non-banking competitors that are involved in the issuance of credit cards. As a result, we strive to develop customized commercial strategies to reinforce this payment channel by applying business intelligence tools that enable us to satisfy the needs of our diverse customer base. Based on this strategy, our stock of issued credit cards increased by approximately 40,359 credit cards for the year ended December 31, 2014.

Commercial Credits

Commercial loans granted by our Individual and SME Banking Unit mainly consist of project financing and working capital loans granted to small and medium sized companies, which are denominated in Chilean pesos, UF and U.S. dollars and may bear fixed or variable rates of interest and generally mature between one and three months. As of December 31, 2014, our Individual and SME Banking Unit had outstanding commercial loans of Ch$2,401,689 million, representing 20.5% of the retail market business segment s total loans and 11.0% of our total loans as of the same date.

Leasing Contracts

Leasing contracts are financial leases for capital equipment and property. Leasing contracts may bear fixed or variable interest rates and they generally have terms that range from one to five years for equipment and from five to twenty years for properties. Most of these contracts are denominated in UF. As of December 31, 2014, our Individual and SME Banking Unit had outstanding leasing contracts of Ch$324,520 million, representing 2.8% of the retail market business segment s total loans and 1.5% of our total loans as of the same date.

Non-Residential Mortgage Loans

Nonresidential mortgage loans granted to individuals and small and medium sized companies are loans intended to finance the acquisition of offices, land, facilities and other real estate assets. Nonresidential mortgage loans are denominated in UF and generally have maturities between eight and twelve years. As of December 31, 2014, our Individual and SME Banking Unit had nonresidential mortgage loans of approximately Ch$31,633 million, representing 0.3% of the retail market business segment s total loans and 0.1% of our total loans as of the same date.

Table of Contents

Debit Cards

We offer different types of debit cards to our customers. Depending on their specifications, these cards can be used for banking transactions at ATMs that operate on the local network, such as Redbanc, the Visa International PLUS network, the local network of merchants participating in the local Redcompra debit program or the international network of merchants associated with the Electron program. We have given different names to these debit cards depending on the card s specific functions and the link between the brand and target market which they serve. During 2014, we offered the following cards: Chilecard Electron, Chilecard Plus, Chilecard Normal, Banjoven, Multiedwards and Citicard. As of December 31, 2014, according to monthly statistics provided by Transbank S.A., the Individual and SME Banking Unit achieved a 17.6% market share of debit card transactions (not including debit cards issued by Banco CrediChile, as those are reported under our Consumer Finance Division), which corresponds to approximately 75.6 million transactions throughout the year.

Lines of Credit

As of December 31, 2014 the Individual and SME Banking Unit had approximately 620,314 approved lines of credit to individual customers and small and medium sized companies. Also, the unit had outstanding advances to 377,763 individual customers and small and medium sized companies that totaled Ch$270,693 million, or 2.3% of the retail market business segment s total loans and 1.2% of our total loans.

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

Deposit Products

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

While historically demand has been mainly focused on UF-denominated deposits during periods of high inflation, demand for Chilean peso-denominated deposits has increased in recent years as a consequence of lower and more stable inflation rates in Chile. This trend was also observed during the financial crisis of 2008 and 2009, when we benefited from a flight-to-quality effect. In fact, amid the high volatility and low interest rates observed in the financial markets throughout 2008 and 2009 (in line with monetary stimulus prompted by central banks worldwide) customers and non-customers increasingly deposited their funds in our current accounts, particularly those denominated in Chilean pesos, as they preferred liquidity. A similar phenomenon took place in 2014.

Consumer Finance Division (Banco CrediChile)

The Consumer Finance Division provides loans and other financial services to low and middle income segments (individuals whose monthly incomes range from Ch$170,000 to Ch$ 500,000), which historically have only been partially served by financial institutions. Also, our Consumer Finance Division serves micro businesses. Banco CrediChile represents an alternative delivery channel for our products and services to these segments, maintaining a separate brand supported by a network of 136 Banco CrediChile branches as of December 31, 2014. Banco CrediChile was established in 2004 from what was formerly our consumer banking division. During 2008, Banco CrediChile was merged with the consumer division of Citibank Chile (Corporación Financiera Atlas S.A.) as a consequence of our merger with Citibank Chile.

Banco CrediChile offers its customers a variety of banking products, such as consumer loans, credit cards, residential mortgage loans and a special demand deposit account (see CrediChile Demand Accounts) targeted at low income customers. As of December 31, 2014, Banco CrediChile had 1,619,231 customers and total loans outstanding that amounted to Ch$818,485 million, representing 3.7 % 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, 2014:

BANK S INTERNAL REPORTING POLICIES:	As of December 31, 2014 (in millions of Ch$, except percentages)	
Consumer loans		
Installment loans	Ch$ 635,294	77.6%
Credit cards	78,492	9.6%
Lines of credit and other consumer loans	273	0.1%
Total consumer loans	**714,059**	**87.3%**
Residential mortgage loans	**76,278**	**9.3%**
Commercial loans	**28,148**	**3.4%**
Total	**Ch$ 818,485**	**100.0%**

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

In order to improve its value offering, during 2012 CrediChile launched two new services, namely, Caja Chile and Microbusiness Banking . The former consists of a limited range of basic financial services (e.g. deposits, withdrawals and bill payments) offered to customers and non-customers through remote IT platforms located in small convenience stores within socially and/or geographically isolated areas of Chile. On the other hand, the Microbusiness Banking is a specialized portfolio of financial services designed for Microbusiness (generally personal businesses) that includes financial advisory, lending and non-lending products and general financial solutions for a segment that has been traditionally uncovered by the banking services.

During 2014, Banco CrediChile continued to enhance these service models as we believe they are a suitable means to penetrate those segments by offering banking solutions. As of December 31, 2014 Banco CrediChile had implemented the CajaChile solution in more than 2,600 convenience stores, which gives us market presence in 78% of Chilean communities. As of the same date, loans granted to microbusinesses accounted for approximately Ch$32,000 million, representing an 18.0% annual increase. Among other initiatives, in 2014 Banco CrediChile undertook a complete revision of operating and commercial technological platforms in order to adopt the quality standards outlined by Banco de Chile. In this regard, the development of a new Internet banking site and the implementation of mobile banking tools translated into higher service quality indicators. In addition, throughout 2014, Banco CrediChile launched CuentaChile , a new concept in demand accounts that incorporates the traditional value offering supporting this type of product with an array of additional services and benefits for users.

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

Consumer Lending

Banco CrediChile provides short to medium term consumer loans and credit card services. As of December 31, 2014, Banco CrediChile had approximately 320,612 consumer loan debtors related to credits with outstanding balances of Ch$635,294 million. As of the same date, Banco

CrediChile had outstanding loan balances related to credit cards that amounted to Ch$78,492 million.

38

CuentaChile Demand Accounts

Banco CrediChile launched CuentaChile Demand Accounts in 2014, offering its customers a deposit product that is flexible and easy to use. This product allows us to tap into a section of the consumer market that otherwise would not be able to access and participate in the banking system because of their risk profile. The CuentaChile Demand Account is a non-interest bearing demand deposit account without checking privileges that targets customers who want a secure and comfortable means of managing and accessing their money. Customers holding this account may use an ATM card linked to their CuentaChile Demand Account to make deposits or automatic payments to other Banco CrediChile accounts through a network of 8,029 ATMs available through the Redbanc network as of December 31, 2014. Also, CuentaChile Demand Account holders may execute transactions in all CrediChile branches and carry out basic banking operations in the CajaChile nationwide network, which is present in most of the Chilean regions and communities. Also, CuentaChile Demand Account holders are entitled to make use of Internet-based banking platforms and mobile applications provided by Banco CrediChile to its customers while receiving electronic money transfers and benefiting from diverse loyalty programs designed by Banco Credichile, which include discounts and special offers in a wide array of stores and services. BancoCrediChile previously offered its customers traditional demand accounts (each known as a CrediChile Demand Account) that entitled their holders to receive payroll deposits, withdraw money from ATMs and perform basic purchasing transactions. The CuentaChile Demand Account replaced and improved the former product offered by CrediChile by adding further benefits to their holders.

As of December 31, 2014, Banco CrediChile had approximately 1,432,327 CuentaChile Demand accounts. Holders of these accounts pay an annual fee, a fee related to the number of withdrawals on the account line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a CuentaChile Demand Account are withdrawn automatically on a monthly basis from funds available in the account. CuentaChile Demand Account allows us to offer our wholesale customers the ability to pay their employees by direct deposit of funds into the individual employee s account at Banco CrediChile. We believe this product can lead to stronger long term relationships with our wholesale customers and their employees.

Wholesale Banking Segment

Our wholesale market business segment serves the needs of corporate customers. In 2014, this business segment recorded annual operating revenues of approximately Ch$480,051 million, which represented 29.2% of our total operating revenues. Also, for the year ended December 31, 2014 this segment recorded an income before income tax of Ch$289,752 million, which represented 44.5% of our consolidated income before income tax. As of December 31, 2014, loans granted by this business segment amounted to Ch$10,142,486 million and represented 46.4% of our total loan portfolio.

The following table sets forth the composition of our portfolio of loans to the wholesale market in accordance with our internal reporting policies, as of December 31, 2014:

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2014 (in millions of Ch$, except percentages)**	
Commercial credits	Ch$ 7,183,179	70.8%
Foreign trade loans	1,220,584	12.1
Leasing loans	1,056,999	10.4
Factoring loans	420,173	4.1
Other loans	261,551	2.6
Total	**Ch$ 10,142,486**	**100.0%**

Table of Contents

As of December 31, 2014, we had 9,694 debtors out of a total of 24,499 wholesale customers. Our wholesale customers are engaged in a wide range of economic sectors. As of December 31, 2014, this business segment s loans were mainly related to:

- financial services (approximately 24.7% of all loans granted by this business segment);
- commerce and trade (approximately 15.9% of all loans granted by this business segment);
- manufacturing (approximately 14.7% of all loans granted by this business segment);
- communication and transportation (approximately 13.0% of all loans granted by this business segment);
- construction (approximately 12.0% of all loans granted by this business segment);
- community, social and personal services (approximately 5.0% of all loans granted by this business segment);
- agriculture, forestry and fishing (approximately 4.0% of all loans granted by this business segment); and
- mining (approximately 1.3% of all loans granted by this business segment).

In line with our strategy of identifying and differentiating market segments in order to provide improved value propositions for a diversified customer base, two of our divisions provide our wholesale customer base with banking and financial products and services: (i) the Corporate Division and (ii) the Commercial Division, through the Large Companies and Real Estate Unit.

Corporate Division

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

As of December 31, 2014, we had 815 corporations as debtors out of a total of 5,839 customers in our Corporate Division with total outstanding loans of Ch$3,991,561 million, which represented 18.2% of our total loan book as of the same date.

The following table sets forth the composition of our Corporate Division s loan portfolio in accordance with our internal reporting policies, as of December 31, 2014:

BANK S INTERNAL REPORTING POLICIES:	As of December 31, 2014 (in millions of Ch$, except percentages)	
Commercial credits	Ch$ 3,153,925	79.0%
Foreign trade loans	398,275	10.0
Factoring loans	131,132	3.3
Leasing loans	122,785	3.1

Other loans	185,444	4.6
Total	**Ch$ 3,991,561**	**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. We also offer payment services (payrolls, suppliers, pensions, dividends, etc.), collection services and connections to international funds transfer networks, as well as traditional deposit products, in particular current accounts.

As of December 31, 2014, we were party to approximately 1,359 payment service contracts and approximately 252 collection service agreements with corporations. We believe that cash management and payment service contracts provide us with a source of low cost deposits and the opportunity to cross sell our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our corporate customers, providing centralized collection services for their accounts receivable and other similar payments. For the year ended December 31, 2014, volumes associated with collection and payment agreements increased by approximately 14.4% and 2.3%, respectively.

Table of Contents

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

In recent years, the market for loans to corporations in Chile has been characterized by reduced margins due to increasing competition. This fierce competition has involved not only local banking players but also, increasingly, overseas lenders who are eager to lend to Chilean companies that hold high credit ratings. Consequently, we have focused on optimizing the profitability in this segment through enhancing our cross sell fee generating services, such as payroll processing, dividend payments and billing services, as well as computer banking services. This strategy has enabled us to maintain profitable relationships with our corporate customers while preserving the ability to extend credit when appropriate business opportunities arise.

During 2014, the division continued to enrich its value propositions for satisfying customers needs. Thus, the Corporate Division, in association with our Financial Advisory subsidiary, was involved and focused on assisting local and foreign customers in some of the most important financial transactions carried out in the local market during 2014, such as a record mergers and acquisitions transaction for the local market amounting to Ch$7,400 million. In addition, the Corporate Division has strived to build tailored solutions for its customers, including debt restructuring, bridge financing, syndicated and cross border loans. In all of these matters, the synergies that arise from the Global Connectivity Agreement with Citigroup have been important when assisting our corporate customers with off shore transactions.

Large Companies and Real Estate Banking Unit Commercial Division

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

As of December 31, 2014, we had 8,455 large companies and real estate debtors out of a total of 18,193 customers in this banking unit. Loans granted by the Large Companies and Real Estate Banking Unit amounted to Ch$6,150,925 million as of the same date, which represented 28.1% of our total loans.

The following table sets forth the loan portfolio composition of the Large Companies and Real Estate Banking Unit, in accordance with our internal reporting policies, as of December 31, 2014:

BANK S INTERNAL REPORTING POLICIES:	**As of December 31, 2014 (in millions of Ch$, except percentages)**	
Commercial credits	Ch$ 4,029,254	65.5%
Leasing loans	925,867	15.1
Foreign trade loans	822,309	13.4
Factoring loans	297,388	4.8
Other loans	76,107	1.2
Total	**Ch$ 6,150,925**	**100.0%**

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

This banking unit aims to provide its customers with excellent service based on proactive financial support that enhances long term relationships with customers. Over time, the banking unit has developed service models intended to take advantage of synergies arising from the interaction of account and specialized support executives responsible for ensuring comprehensive customer service. These models have enabled this banking unit to strengthen customer relationships and product offerings.

In 2014, this banking unit continued strengthening its presence in commercial credit with an 8.1% annual increase in loan average balances. Part of this increase was explained by the Family Office area operating under the Large Companies and Real Estate Banking Unit, which was established in 2013 as a means to meet the financial needs of single families by providing tailor-made financing and wealth management solutions. In 2014, the Family Office area had an average balance of loans of Ch$218,486 million, representing a 40.4% annual increase. Also, this area was able to increase deposits (including demand and time deposits) from these customers by approximately 14.6% on an annual basis, ending 2014 with an average balance of approximately Ch$162,532 million.

Our leasing and factoring businesses are part of the Large Companies and Real Estate Banking Unit.

Treasury and Money Markets Operations

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

In addition, our Treasury and Money Market Operations business segment is focused on managing our currency, interest rate and maturity gaps, ensuring adequate liquidity levels, managing our investment portfolio and performing the intermediation of fixed-income instruments, currencies and derivatives. Interest rate gap management is aimed at generating an adequate funding structure, prioritizing our capitalization and asset and liability cost structure and funding source diversification.

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

Regarding funding functions carried out by our Treasury, during 2014, we continued to develop a funding diversification strategy by conducting important transactions in Chile and abroad. These transactions have been intended to not only take advantage of attractive interest rate opportunities but also to improve our liquidity standards by issuing debt of longer maturities, as well as diversify our liability structure in terms of markets. Accordingly, during 2014 we carried out debt placements in Switzerland for a total amount of Ch$174,530 million (approximately U.S.$288 million). Similarly, under our MTN Program we issued approximately Ch$66,742 million (approximately U.S.$110 million) of notes in Japan and Ch$43,044 million (approximately U.S.$71 million) of notes in Hong Kong. Finally, for short-term financing purposes we continued using our Commercial Paper Program in the United States by placing approximately Ch$1,090,340 million (nearly U.S.$1,799 million) of commercial paper. As of December 31, 2014 we had an outstanding balance of roughly Ch$378,806 million (approximately U.S.$625 million) of commercial paper. Also, during 2014 we placed long-term bonds in the local market for a total amount of Ch$451,966 million (approximately U.S.$745 million). Lastly, we carry out an international bond issuances if and only if the cost (including costs of interest rate swaps and other transactional expenses) is below the cost of raising funds locally and the currency or interest rate exposure is fully hedged via cross currency swaps.

The funding functions carried out by our Treasury division are complemented by our international area, namely International Financial Institutions (IFI), which manages relations with correspondent banks worldwide, facilitating international payments and obtaining foreign currency financing for us. As of December 31, 2014, we have established a network of approximately 600 foreign banks, among which we maintained credit relationships with approximately 180 correspondent banks, from which we maintained 25 account relationships. IFI played an important role in structuring international transactions aimed at diversifying our funding.

Table of Contents

Regarding the management of our securities portfolio, as of December 31, 2014 it amounted to Ch$1,902,254 million and was composed of available for sale securities that totaled Ch$1,608,796 million and securities held for trading amounting to Ch$293,458 million. As for the type of instruments included in our securities portfolio, as of December 31, 2014, 63.5% consisted of securities issued by local financial institutions, 22.5% consisted of securities issued by the Central Bank and the Chilean Government, 10.7% consisted of securities issued by non-financial Chilean corporate issuers and other securities and 3.3% consisted of securities issued by foreign companies and central banks. Our investment strategy is designed to supplement our expected profitability, risks and economic variable projections while adhering to the regulatory guidelines and internal limits defined by our finance committee. In this regard, neither proprietary trading nor speculation on equity holdings are goals for us and, therefore, equity instruments only represented 0.5% of our investment portfolio as of December 31, 2014.

Operations through Subsidiaries

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

The following table sets forth information with respect to our financial services subsidiaries in accordance with our internal reporting policies as of December 31, 2014:

BANK S INTERNAL REPORTING POLICIES	Assets	Equity (in millions of Ch$)	Net Income
Banchile Trade Services Limited (Hong Kong)	Ch$ 12	Ch$ 12	Ch$ (13)
Banchile Administradora General de Fondos S.A.	64,407	55,467	15,114
Banchile Asesoría Financiera S.A.	6,603	5,208	3,467
Banchile Corredores de Seguros Ltda.	11,422	6,390	1,498
Banchile Corredores de Bolsa S.A.	452,029	82,810	8,781
Banchile Securitizadora S.A.	316	254	(297)
Socofin S.A.	7,978	1,176	221
Promarket S.A.	2,131	878	44
Total	**Ch$ 544,898**	**Ch$ 152,195**	**Ch$ 28,815**

The following table sets forth information with respect to our ownership interest in our financial services subsidiaries as of December 31, 2014:

	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 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.

On June 19, 2013, Banco de Chile acquired all of the shares of Banchile Factoring S.A. owned by Banchile Asesoría Financiera. As a result of this transaction, Banco de Chile fully acquired the assets and liabilities of Banchile Factoring S.A. and on June 30, 2013 this subsidiary was dissolved.

During 2014, we began a voluntary dissolution process for Banchile Trade Services Limited in Hong Kong. We expect to complete this process before the end of 2015.

Table of Contents

Securities Brokerage Services

We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores de Bolsa S.A. is registered as a securities broker with the Superintendencia de Valores y Seguros de Chile (the Chilean Superintendency of Securities and Insurance), the regulator of Chilean publicly listed companies, and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores de Bolsa S.A. has provided stock brokerage services, fixed income investments and foreign exchange products to individuals and companies through our branch network. During the year ended December 31, 2014, Banchile Corredores de Bolsa S.A. recorded an aggregate stock trading turnover on the Santiago Stock Exchange, the Chilean Electronic Stock Exchange and the Valparaíso Stock Exchange that amounted to approximately Ch$7,194,703 million, which represented a 16.4% market share within the Chilean stock market. As of December 31, 2014, Banchile Corredores de Bolsa S.A. had equity of Ch$82,810 million and, for the year ended December 31, 2014, recorded net income of Ch$8,781 million, which represented 1.5% of our consolidated net income for that period (under the bank s internal reporting policies).

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, 2014, according to data published by the Chilean Mutual Funds Association, Banchile Administradora General de Fondos S.A. was the largest mutual fund manager in Chile, managing approximately 22.5% of all Chilean mutual funds assets. As of December 31, 2014, Banchile Administradora General de Fondos S.A. operated 86 mutual funds and had Ch$6,057,417 million in assets under management owned by approximately 422,309 corporate and individual investors. Also, as of December 31, 2014, Banchile Administradora General de Fondos S.A. operated 10 public investment funds (Chile Blend, Chile Small Cap, Banchile Inmobiliario IV, Banchile Inmobiliario V, Banchile Inmobiliario VI and Banchile Inmobiliario VII, Plusvalia Eficiente, Rentas Inmobiliarias I, Latam Small Cap, Latam High Yield) and one private investment funds (Minero), managing a total amount of Ch$221,550 million in net assets on behalf of 319 participants.

The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos S.A. as of December 31, 2014:

Name of Fund	Type of Fund	Net Asset Value As of December 31, 2014 (in millions of Ch$)
AHORRO	Fixed income (medium/long term)	270,987
ALIANZA	Fixed income (medium/long term)	409,563
ANDES ACCIONES	Equity	492
ASIA FUND	Equity	7,885
ASIATICO ACCIONARIO	Equity	18,835
BANCHILE-ACCIONES	Equity	27,740
BONOS SOBERANOS	Fixed income (medium/long term)	26,816
BOOSTER ASIA EMERGEN	Structured	2,840
BOOSTER CHINA II	Structured	2,260
BOOSTER EUROPA II	Structured	6,118
BOOSTER JAPON	Structured	1,353
BOOSTER REAL ESTATE	Structured	4,564
BRIC ACCIONARIO	Equity	365
CAPITAL EFECTIVO	Fixed income (short term)	854,826
CAPITAL EMPRESARIAL	Fixed income (short term)	45,028
CAPITAL FINANCIERO	Fixed income (short term)	348,432
CAPITALISA-ACC.	Equity	2,256
CASH	Fixed income (short term)	270,959
CH BURSATIL GARANT	Structured	3,412
CHILE 18 Q	Equity	15,425
CHILE ACCIONARIO	Equity	13,314
CORPORATE DOLLAR	Fixed income (short term)	477,630

CORPORATIVO	Fixed income (short term)	183,975
CRECIMIENTO	Fixed income (short/medium term)	103,117
DEPOSITO PLUS V	Structured	8,309
DEPÓSITO PLUS VI	Structured	4,125

Table of Contents

Name of Fund	Type of Fund	Net Asset Value As of December 31, 2014 (in millions of Ch$)
DEPOSITO XXI	Fixed income (medium/long term)	373,724
DEUDA CORP. 3-5 AÑOS	Fixed income (medium/long term)	67,034
DEUDA DOLAR	Fixed income (medium/long term)	17,536
DEUDA ESTATAL	Fixed income (medium/long term)	23,811
DEUDA NACIONAL	Fixed income (medium/long term)	20,014
DEUDA PESOS 1-5 AÑOS	Fixed income (medium/long term)	80,115
DISPONIBLE	Fixed income (short term)	52,743
DOLLAR INVESTMENT G.	Fixed income (medium/long term)	11,971
EMERGING FUND	Equity	12,973
EMERGING MARKET	Equity	10,426
ESTRATEGIA AGRESIVA	Blend	10,230
ESTRATEGIA CONS	Blend	44,774
ESTRATEGIA MODERADA	Blend	37,540
ESTRATEGICO	Fixed income (medium/long term)	239,811
EURO MONEY MARKET	Fixed income (short term)	13,663
EUROPA ACCIONARIO	Structured	1,896
EUROPA DESARROLLADA	Equity	27,849
EUROPE EQUITY TAX AD	Equity	18,722
FLEXIBLE	Fixed income (short term)	64,970
FONDO MUTUO MIX CONSERVADOR	Blend	3,473
GLOBAL DOLLAR	Equity	8,689
GLOBAL MID CAP	Equity	20,320
GLOBAL STOCKS GARANT	Structured	3,019
HORIZONTE	Fixed income (medium/long term)	224,601
INVERSION BRASIL	Equity	2,287
INVERSION CHINA	Equity	3,489
INVERSION DOLLAR 30	Blend	941
INVERSION USA	Equity	46,569
INVERSIONISTA I	Equity	12,578
LATAM MID CAP	Equity	1,282
LATIN AMERICA FUND	Equity	15,684
LIQUIDEZ 2000	Fixed income (short term)	316,119
LIQUIDEZ FULL	Fixed income (short term)	177,757
MID CAP	Equity	12,968
MIX MODERADO	Equity	2,330
OPORTUNIDADES SECTOR	Equity	5,143
PATRIMONIAL	Fixed income (short term)	225,550
PERFORMANCE	Fixed income (short/medium term)	27,035
QUANT GLOBAL	Blend	2,964
RENTA FUTURA	Fixed income (medium/long term)	328,912
RETORNO ACCIONARIO	Equity	768
RETORNO DOLAR	Fixed income (medium/long term)	23,003
RETORNO L.P. UF	Fixed income (medium/long term)	28,148
SB EUROPA CHINA	Structured	1,319
SMALL CAP USA GAR	Structured	5,471
TWIN WIN EUROPA 103	Structured	3,524
TWIN WIN EUROPE EQUI	Structured	5,595
TWIN WIN USA PESOS	Structured	9,365
U.S. DOLLAR FUND	Equity	15,656
U.S. MID CAP	Equity	50,312
USA EQUITY	Equity	35,859
UTILIDADES	Fixed income (short/medium term)	150,557
VISION DINAMICA A	Blend	11,054
VISION DINAMICA ACC.	Blend	3,451
VISION DINAMICA B	Blend	4,635
VISION DINAMICA C	Blend	8,745

VISION DINAMICA D	Blend		4,360
VISION DINAMICA E	Blend		13,457
Total		**Ch$**	**6,057,417**

As of December 31, 2014, Banchile Administradora General de Fondos S.A. recorded equity of Ch$55,467 million and, for the year ended December 31, 2014, net income of Ch$15,114 million, which represented 2.6% of our 2014 consolidated net income (under the bank s internal reporting policies).

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, 2014, Banchile Asesoría Financiera S.A. had equity of Ch$5,208 million and, for the year ended December 31, 2014, recorded net income of Ch$3,467 million, which represented 0.6% of our 2014 consolidated net income (under the bank s internal reporting policies).

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, 2014, Banchile Corredores de Seguros Limitada had equity of Ch$6,390 million and, for the year ended December 31, 2014 it recorded net income of Ch$1,498 million, which represented 0.3% of our 2014 consolidated net income (under the bank s internal reporting policies). According to the Superintendency of Securities and Insurance (the SVS), as of December 31, 2014, Banchile Corredores de Seguros Limitada had a 4.8% market share in the total amount of life and casualty insurance policies (in Chilean pesos) sold by insurance brokerage companies in Chile, excluding life annuities.

Securitization Services

We offer investment products to meet the needs of institutional investors, such as private pension funds and insurance companies, through Banchile Securitizadora S.A. This subsidiary securitizes financial assets, and issues debt instruments with credit ratings that can be traded in the Chilean marketplace, backed by a bundle of revenue producing assets of the client company. As of December 31, 2014, Banchile Securitizadora S.A. had equity of Ch$2.54 million and, for the year ended December 31, 2014, the subsidiary reported a net loss of Ch$297 million (under bank s internal reporting policies). Also as of December 31, 2014, Banchile Securitizadora S.A. had a 15.6% market share in the total volume of assets securitized in Chile. This market share refers to the percentage of existing stock of securitized assets as of the mentioned date.

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, 2014, Promarket S.A. had equity of Ch$878 million and, for the year ended December 31, 2014, it recorded net income of Ch$44 million (under the bank s internal reporting policies).

Collection Services

Socofin S.A. provides judicial and extra judicial loan collection services to the Bank. As of December 31, 2014, Socofin S.A. had equity of Ch$1,176 million and, for the year ended December 31, 2014, net income of Ch$221 million (under the bank s internal reporting policies).

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, 2014, Banchile Trade Services Limited had equity of Ch$12 million and, for the year ended December 31, 2014, it recorded a net loss of Ch$13 million (under the bank s internal reporting policies).

As of April 17, 2015, our Trade Services subsidiary in Hong Kong is in the process of voluntary dissolution, which we expect to complete by December 31, 2015.

Distribution Channels and Electronic Banking

Our distribution network provides integrated financial services and products to our customers through a wide range of channels. The network includes ATMs, branches, on-line banking and phone-banking devices. As of December 31, 2014, we had 1,460 ATMs (that form part of Redbanc s network of 8,029 ATMs) which allowed our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2014, we had a network of 429 retail branches throughout Chile. Our branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, cash withdrawals, offer the full range of our retail banking products, such as consumer loans, credit cards, mortgage loans and current accounts, and provide financial and non-financial information to current and potential customers.

We offer electronic banking services to our customers 24 hours a day through our Internet website, www.bancochile.cl, which has tailored homepages for the different segments we serve. Thus, by accessing our website, our individual customers may execute electronic money transfers, access their account balances, pay utilities bills, apply for loans, purchase insurance premiums, and so on. On the other hand, our corporate homepage offers a broad range of services, including the payment of bills, electronic fund transfers, non-charge orders, as well as a wide variety of account inquiries. These services include our office banking service, Banconexion Web for Enterprises, which enables our corporate customers to perform all of their banking transactions from their offices. Our homepage also offers products with exclusive benefits provided by our customer loyalty marketing programs, which enhance our relationships with customers. Through the jointly administered website of Banchile Administration General de Fondos and Banchile Corredora de Bolsa, our mutual funds and securities brokerage subsidiaries, respectively, we also provide customers interested in investing and saving their funds with an Internet-based platform on which they can trade stocks and currencies, make time deposits and take positions in mutual funds, foreign stock markets, investments funds and derivatives. Our foreign trade customers can rely on our international business homepage, www.bancochile.com, which enables them to inquire about the status of their foreign trade transactions and perform transactions, such as opening letters of credit, recording import collection and hedging on instructions and letters of credit. On an average monthly basis, during 2014 approximately 644,000 individual and corporate customers performed nearly 38.8 million transactions per month on our website, of which approximately 7.0 million were monetary transactions.

Also, we provide our customers with access to a 24-hour phone-bank through which they can access account information and execute certain transactions. This service, through which we receive approximately 405,000 calls per month on average, has enabled us to develop customer loyalty campaigns, sell financial products and services, answer specialized inquiries and receive and resolve complaints by customers and non-customers.

Lastly, during 2014 we enhanced our mobile banking platforms by developing and launching a new bundle of applications titled MiBanco|MiPago|MiBeneficio. MiBanco is a mobile banking platform that enables our customers to perform most of the operations they can execute on our website, such as accessing their account balances, making bill payments and electronic money transfers, carrying out cash advances from credit cards to checking accounts. MiPago is a specialized mobile application that permits our customers to request reimbursements from other Banco de Chile s customers and perform the transaction by generating and scanning a QR code, which reinforces the security standards for these kinds of operations. As of December 31, 2014 approximately 2.4 million electronic money transfers had been performed through MiBanco.

Involvement with the Transantiago Plan

Since June 2005, we have been a shareholder in *Administrador Financiero del Transantiago* (AFT), the company responsible for the financial management of the overhaul of Santiago s public transit system (the Transantiago Plan). Other majority shareholders of the company include three other major Chilean banks, a financial services company and a technology services company. We own 20% of AFT s capital stock, which represented an original capitalization of approximately U.S.$13.4 million as of June 8, 2005.

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

In 2007, as shareholders of AFT, we made extraordinary contributions for a total amount of U.S.$4.1 million with the purpose of financing AFT s expenses, which were capitalized as of December 31, 2007. Between January and April 2008, we made additional funds available to AFT in the amount of U.S.$358,000 to pay AFT s expenses arising from the Transantiago Plan, funds which were reimbursed to us in 2013. We have made no additional funds available after April 2008 and we estimate that, as shareholders, it will not be necessary to make extraordinary contributions for financing AFT s operations.

On December 2012, AFT and the Chilean Ministry of Transports and Telecommunications entered into a new agreement that limits the services to be provided by AFT to the financial management of the Transantiago System s resources. This new agreement significantly reduces the AFT s incomes and operational expenses, while materially reducing the AFT s risk for us.

As of December 2014, AFT s equity amounted to U.S.$18.4 million.

Competition

Overview

The Chilean market for banking and other financial services is highly and increasingly competitive and consists of a number of different market sectors. The most important sector is commercial banking that as of December 31, 2014 consisted of 23 banks, 22 of them privately owned and one government owned bank, namely, Banco del Estado. As of December 31, 2014, the four largest Chilean banks accounted for 64.0% of all outstanding loans granted by Chilean financial institutions (excluding subsidiaries abroad): Banco Santander Chile (19.0%), Banco de Chile (18.1%), Banco del Estado (13.8%) and Banco de Crédito e Inversiones (13.1%).

We face significant and increasing competition in all market segments in which we operate. As a comprehensive commercial bank that offers a wide range of services to all types of enterprises and individual customers, we deal with a variety of competitors, ranging from large privately owned commercial banks to more specialized entities, such as niche banks. We also increasingly face competition, from non-banking companies like large department stores, private compensation funds, and saving and credit cooperatives with respect to some of our credit products, such as credit cards and consumer loans. Furthermore, in recent years and given the outstanding credit rating held by the country, as well as the liquidity observed in overseas markets, local middle market, corporations and multinational branches in Chile have increasingly replaced loans rendered by local banks with off-shore long-term debt. In addition, we face competition from other types of competitors, such as leasing, factoring and automobile financing companies (especially in lending products), as well as mutual funds, pension funds and insurance companies, within the market for savings and mortgage loans. Nevertheless, banks continue to be the main suppliers of leasing, factoring and mutual funds, while the insurance brokerage business has become an important component of the value offerings provided by banks.

Within the local banking industry, our primary competitors are the main commercial banks in Chile, namely, Banco Santander Chile, Banco de Crédito e Inversiones, Corpbanca, Banco Bilbao Vizcaya Argentaria Chile (BBVA), and Banco Itaú Chile. Nevertheless, we also face competition from Banco del Estado, a government owned bank, which has a larger customer base than we do. Banco del Estado, which operates under the same regulatory regime as Chilean privately owned banks, was the third largest bank in Chile as of December 31, 2014, with outstanding total loans of Ch$16,614,586 million, representing a 13.8% market share (excluding operations of subsidiaries abroad), according to data published by the SBIF.

In the retail market, we compete with other privately-owned Chilean banks, as well as with Banco del Estado. We believe our strongest privately owned competitors in this market are Banco Santander Chile and Banco de Crédito e Inversiones, as these banks have developed diversified business strategies focused on both small and medium sized companies and lower to middle income segments of the Chilean population. In addition, we believe our strongest competitors in the high income individual segment are Banco Santander Chile and Banco Itaú Chile, as these banks provide their customers with wealth management services and traditional banking solutions, as we do. We also compete with companies that offer non-lending specialized financial services in the high income individuals segment such as Larrain Vial and BTG Pactual, whose core businesses are stock brokerage, financial advisory, mutual funds management and wealth management services.

Historically, commercial banks in Chile have competed in the retail market against each other, and finance companies and department stores, with the latter two having traditionally been focused on consumer loans to low and middle income segments. However, finance companies gradually disappeared between the 1990s and 2000s, as most of them merged into the largest commercial banks that dominate the Chilean banking industry today. Also, by the end of 1990s, the Chilean financial industry witnessed the rise of non-traditional banking competitors, such as large department stores. During the 2000s, these players gained increasing significance in the consumer lending sector, as they were permitted to issue financial products such as credit cards. This trend resulted in the creation of three consumer oriented banks affiliated with Chile s largest department stores; namely, Banco Falabella, Banco Ripley and Banco Paris. Although these banks had a combined market share (excluding operations of subsidiaries abroad) of only 1.9% as of December 31, 2014, according to the SBIF, the presence of these banks is likely to make consumer banking more competitive over the next few years, especially within the lower income segment.

In the wholesale market, we believe our strongest competitors are also Banco Santander Chile, Banco de Crédito e Inversiones, Corpbanca and Banco Bilbao Vizcaya Argentaria Chile (BBVA). Similarly, we believe these banks are our most significant competitors in the small and medium sized companies business segment. In this segment we also compete with entities such as Larrain Vial and BTG Pactual, which provide their corporate customers with, among others, financial advisory, investment banking, wealth management, debt restructuring and securities placements services.

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

Regarding mergers and acquisitions events in the local banking industry, most of these transactions have involved international players seeking to participate in the local market by acquiring local banks and their banking licenses. Thus, 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 January 1997, Banco O Higgins and Banco de Santiago merged, forming Banco Santiago and in 1999 Banco Santander of Spain acquired Banco Santiago. During 2001, Banco de Chile merged with Banco de A. Edwards, which was effective 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 Banco Santander Chile brand name. In 2003, Banco del Desarrollo merged with Banco Sudamericano, while Dresdner Banque Nationale de Paris merged with Banco Security in 2004, maintaining the Banco Security brand name. Subsequently, in 2005, Banco de Crédito e Inversiones merged with Banco Conosur. In 2007, Banco Itaú acquired Bank Boston unit in Chile, while Rabobank and Scotiabank acquired HNS Bank and Banco del Desarrollo, respectively. In the first quarter of 2008, we merged with Citibank Chile, and afterwards the 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. During 2009, Banco Monex was acquired by Consorcio Group, which absorbed the operations of the former and its subsidiaries, becoming Banco Consorcio. Furthermore, by the end of 2013 Corpbanca s controlling shareholders announced its intention to sell part of its stake to a local or international player. On January 29, 2014, Corpgroup (the controlling shareholder of Corpbanca) accepted the bid of Brazil s Itau Unibanco, through which Itau merges its own Chilean and Colombian subsidiaries with Corpbanca. The merged bank, on a pro forma basis, would have had a 12.6% market share as of December 31, 2014, excluding operations of subsidiaries abroad. In addition, according to publicly available information, the merged bank should start its operations by the end of 2015.

In addition, consolidation and overseas expansion has emerged as a means of inorganic growth for local banks. Actually, during 2012 Corpbanca, fourth ranked among Chilean privately owned banks in terms of total loans as of December 31, 2011, acquired a former Santander Group s subsidiary in Colombia and consolidated its balance sheet and results of operations beginning May 31, 2012. In addition, by the end of 2012, Corpbanca made a bid for acquiring Helm Bank in Colombia. The bid process was completed and fully authorized by the SBIF in July 2013 and Corpbanca started to consolidate the balance sheet of this new subsidiary beginning August 31, 2013. As of December 31, 2014 loans associated with Corpbanca s operations in Colombia amounted to Ch$5,241,507 million and represented 4.2% of the industry total loans.

Similarly, by the end of May 2013, Banco de Crédito e Inversiones (BCI) the third largest privately owned bank in Chile in terms of total loans as of December 31, 2013 with a 13.2% market share (excluding operations of subsidiaries abroad) announced the acquisition of City National Bank, headquartered in Florida, U.S. According to public information published by the SBIF as of February 28, 2015 (the latest available data), BCI had not consolidated the operations of City National Bank.

Furthermore, during 2014 the Chilean banking industry witnessed the entry of new market players and changes in the ownership structure of certain competitors. By the end of August, 2014 Banco International announced the intention of Inversiones la Construcción (ILC) to take control of the bank by acquiring a 50.1% stake from the controlling shareholder, Baninter . Banco Internacional is a small bank within the Chilean banking industry and is mostly focused on the wholesale banking segment. As of December 31, 2014 Banco Internacional s loan book represented 0.6% of the total outstanding loans of the industry (excluding operations of subsidiaries abroad). On the other hand, on May 30, 2014 the SBIF authorized the existence and approved the bylaws of Banco BTG Pactual Chile. This bank, a Chilean subsidiary of Brazil-based bank BTG Pactual, was already operating in the Chilean financial industry since 2012 by providing stock brokerage, mutual funds management and investment banking services. Banco BTG Pactual Chile received the final authorization to operate as a bank by December 31, 2014 and officially started its operations on January 23, 2015.

We expect these trends 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. Although we believe that we are currently large enough to compete effectively in all of our target markets, any further consolidation in the Chilean financial services industry may adversely affect our competitive position. We are working on developing and enhancing our competitive strengths to ensure our sustainability.

Below there is a set of tables and figures for the years ended December 31, 2012, 2013 and 2014 that shows our position within the Chilean financial industry. The market information is set forth under Chilean GAAP as published by the SBIF and unless otherwise indicated excludes data related to operations of subsidiaries abroad.

The following table sets forth certain statistical information on the Chilean financial system as of December 31, 2014, according to information published by the SBIF under Chilean GAAP:

	As of December 31, 2014 (in millions of Ch$, except percentages)							
	Assets		**Loans(1)(2)**		**Deposits(2)**		**Equity(3)**	
CHILEAN GAAP:	**Amount**	**Share**	**Amount**	**Share**	**Amount**	**Share**	**Amount**	**Share**
Private sector banks	Ch$ 152,764,835	84.5%	Ch$ 104,012,138	86.2%	Ch$ 81,087,677	80.8%	Ch$ 13,172,923	91.4%
Banco del Estado	28,116,204	15.5	16,614,586	13.8	19,295,095	19.2	1,242,499	8.6
Total banking system	**Ch$ 180,881,039**	**100.0%**	**Ch$ 120,626,724**	**100.0%**	**Ch$ 100,382,772**	**100.0%**	**Ch$ 14,415,422**	**100.0%**

Source: SBIF

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

Table of Contents

Loans

We had total loans of Ch$21,876,648 million as of December 31, 2014, according to information published by the SBIF under Chilean GAAP. The following table sets forth our market share and the market share of our principal privately owned competitors in terms of total loans, as of the dates indicated, according to information published by the SBIF under Chilean GAAP:

CHILEAN GAAP:	Total Loans[1][2] As of December 31, 2012	2013	2014
Banco Santander Chile	19.1%	19.2%	19.0%
Banco de Chile	19.0	19.1	18.1
Banco de Crédito e Inversiones	13.2	13.2	13.1
Banco Corpbanca	8.4	7.3	7.4
BBVA Bilbao Vizcaya	7.1	6.9	6.9
Accumulated market share	**66.8%**	**65.7%**	**64.5%**

Source: SBIF

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

Credit Quality

The following table sets forth the ratio of allowances to total loans of the largest private banks in Chile and that of the Chilean financial system as a whole (including such banks) as of December 31, 2012, 2013 and 2014, according to information published by the SBIF under Chilean GAAP:

CHILEAN GAAP:	Allowances to Total Loans[1] As of December 31, 2012	2013	2014
Banco Santander Chile	2.91%	2.91%	3.06%
Banco de Crédito e Inversiones	2.29	2.32	2.17
Banco de Chile	2.28	2.30	2.42
BBVA Bilbao Vizcaya	1.80	1.72	1.64
Banco Corpbanca	1.27	1.55	1.36
Financial system	**2.27%**	**2.36%**	**2.65%**

Source: SBIF

(1) Excludes operations of subsidiaries abroad.

The following table sets forth the ratio of past-due loans (90 days or more) over total loans for the largest private banks in Chile as of December 31, 2012, 2013 and 2014 on an individual basis, according to information published by the SBIF under Chilean GAAP:

CHILEAN GAAP:	**Past-Due Loans to Total Loans(1)(2) As of December 31,**		
	2012	**2013**	**2014**
Banco de Chile	0.97%	1.13%	1.25%
Banco Corpbanca	1.30	1.21	1.48
BBVA Bilbao Vizcaya	1.22	1.50	1.59
Banco de Crédito e Inversiones	2.07	2.39	2.29
Banco Santander Chile	3.17	2.93	2.81
Financial system	**2.22%**	**2.15%**	**2.12%**

Source: Chilean SBIF

(1) The Superintendency of Banks only releases information about past-due loans (90 days or more) on an individual basis for Chilean banks.
(2) Past-Due loans refer to loans 90 days or more past-due, including installments that are overdue and the remaining amount of principal and interest.

Table of Contents

Deposits

We had total deposits (including demand deposits and time deposits) of Ch$16,655,619 million as of December 31, 2014, according to information published by the SBIF under Chilean GAAP. The following table sets forth the market shares in terms of total deposits for private banks as of December 31, 2012, 2013 and 2014 on a consolidated basis, according to information published by the SBIF under Chilean GAAP:

CHILEAN GAAP:	Total Deposits[1] As of December 31,		
	2012	2013	2014
Banco de Chile	17.8%	17.8%	16.6%
Banco Santander Chile	16.6	16.6	16.8
Banco de Crédito e Inversiones	12.8	12.6	12.8
BBVA Bilbao Vizcaya	6.3	6.4	6.3
Banco Corpbanca	8.2	6.3	6.2
Total market share	**61.7%**	**59.7%**	**58.7%**

Source: SBIF

(1) Excludes operations of subsidiaries abroad.

Capital and Reserves

The following table sets forth the level of capital and reserves for the largest private banks in Chile as of December 31, 2012, 2013 and 2014 according to information published by the SBIF under Chilean GAAP:

CHILEAN GAAP:	Capital and Reserves As of December 31,		
	2012	2013	2014
Banco de Chile	Ch$ 1,841,968	Ch$ 2,095,296	Ch$ 2,268,664
Banco Santander Chile	1,898,348	2,044,834	2,257,747
Banco Corpbanca	936,275	1,639,493	1,654,610
Banco de Crédito e Inversiones	1,230,078	1,371,894	1,560,883
BBVA Bilbao Vizcaya	592,336	631,434	664,224

Source: SBIF

Return on Capital and Reserves

The following table sets forth our return on capital and reserves and the returns on capital and reserves of our principal privately owned competitors and the Chilean banking industry as a whole, in each case as of December 31, 2012, 2013 and 2014, according to information published by the SBIF under Chilean GAAP:

Return on Capital and Reserves[1][2]

CHILEAN GAAP:	Year Ended December 31,		
	2012	2013	2014
Banco de Chile	25.3%	24.5%	26.1%
Banco de Crédito e Inversiones	22.1	21.9	22.0
Banco Santander Chile	20.4	21.6	24.4
BBVA Bilbao Vizcaya	11.0	8.0	11.0
Banco Corpbanca	12.8	9.5	13.7
Financial System average	**15.6%**	**15.9%**	**18.6%**

Source: SBIF

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

Table of Contents

Efficiency

The following table sets forth the efficiency ratios of the largest private Chilean banks as of December 31, 2012, 2013 and 2014, according to information published by the SBIF under Chilean GAAP:

CHILEAN GAAP:	Efficiency Ratio(1)(2) As of December 31, 2012	2013	2014
Banco de Chile	47.2%	42.8%	43.4%
Banco Santander Chile	42.8	43.0	42.0
Banco de Crédito e Inversiones	49.6	48.2	46.1
Banco Corpbanca	56.7	52.9	52.1
BBVA Bilbao Vizcaya	59.5	58.4	65.4
Financial System average	**51.2%**	**49.9%**	**49.5%**

Source: SBIF

(1) Operating expenses divided by operating revenue.
(2) Includes operations of subsidiaries abroad.

53

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 SBIF and the Central Bank. Chilean banks are primarily subject to the General Banking Law and secondarily, to the extent not inconsistent with that law, the provisions of the Chilean Corporations Law governing public corporations, except for certain provisions that are expressly excluded.

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

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

Lastly, by the end of 2014, the Chilean Finance Ministry announced an overall review and various modifications to the Chilean Banking Law. As proposed, these changes are aimed at modernizing the Chilean banking framework by adopting the Basel III Guidelines, while appropriately regulating the complexity of the Chilean banking industry, improving corporate governance requirements and reinforcing the independency of the SBIF, and establishing a resolution system for banks. This proposal will likely be sent to the Chilean congress for discussion and approval. See Item 3. Risk Factors Restrictions imposed by banking regulations may constrain our operations and thereby adversely affect our financial condition and results.

The Central Bank

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

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

The Superintendency of Banks

Banks are supervised and controlled by the SBIF, a Chilean governmental agency. The SBIF authorizes the creation of new banks and has broad powers to interpret and enforce legal and regulatory requirements applicable to banks and financial institutions. Furthermore, in cases of noncompliance with its legal and regulatory requirements, the SBIF has the ability to impose sanctions.

In extreme cases, it can appoint, with the prior approval of the board of directors of the Central Bank, a provisional administrator to manage a bank. It also has the mandate to approve any amendment to a bank s bylaws or any increase in its capital.

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

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

According to Article 35 bis of the General Banking Law, the prior authorization of the SBIF 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 SBIF to be more than 15% of the Chilean banking system loans. The intended purchase, merger or expansion may be denied by the SBIF, or, if the acquiring bank or resulting group would own a market share in loans determined to be more than 20% of the Chilean banking system loans, the purchase, merger, or expansion may be conditioned on one or more of the following:

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

If the acquiring bank or resulting group would own a market share in loans determined by the SBIF to be more than 15% but less than 20%, the authorization will be conditioned on the bank or banks maintaining Regulatory Capital not below 10% of their risk-weighted assets for a period set by the SBIF, 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 SBIF, the following ownership disclosures are required:

- banks must disclose to the SBIF the identity of any person owning, directly or indirectly, 5% or more of its shares;

holders of ADSs must disclose to the depositary the identity of beneficial owners of ADSs registered under such holders names;

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

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

Table of Contents

The Superintendency of Securities and Insurance

Our subsidiaries Banchile Corredores de Bolsa S.A., Banchile Administradora General de Fondos S.A., Banchile Securitizadora S.A. and Banchile Corredores de Seguros Ltda. are supervised by the Superintendency of Securities and Insurance (*Superintendencia de Valores y Seguros* or SVS). The SVS is a Chilean governmental agency that is empowered to interpret and enforce legal and regulatory requirements applicable to entities that are subject to securities and insurance regulation. The SVS also has the ability to impose sanctions over the supervised entities.

Limitations on Types of Activities

Chilean banks can only conduct those activities allowed by the General Banking Law, including loan placements, factoring and leasing activities, accepting deposits and, subject to certain limitations, making investments and performing financial services. Investments are restricted to real estate for the bank s own use, gold, foreign exchange and debt securities. Through subsidiaries, banks may also engage in other specific financial service activities such as securities brokerage services, mutual fund management, investment fund management, foreign capital fund management, financial advisory, securitization and factoring activities. Subject to specific limitations and the prior approval of the SBIF 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 SBIF published guidelines permitting banks to offer and charge fees for the use of a current account product that pays interest. Under these guidelines, these accounts may be subject to a minimum balance and different interest rates depending on average balances held in the account. The Central Bank has imposed additional caps on the interest rate that can be charged by banks with a solvency score of less than A.

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

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

Deposit Insurance

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

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

- deposits in current accounts;

deposits in savings accounts of demand deposits;

other demand deposits; and

deposits in savings accounts with unlimited withdrawals.

In addition, the Chilean Government guarantees up to 90% of the principal amount of time deposits held by individuals in the Chilean banking system. This guarantee covers obligations with a maximum value of UF 108 per person (Ch$2,659,727 or U.S.$4,388.3 as of December 31, 2014).

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

As of December 31, 2014 Banco de Chile fully complied these reserve requirements.

Minimum Capital

Under the General Banking Law, a bank must have a minimum paid in capital and reserves of UF 800,000 (Ch$19,702 million or U.S.$32.5 million as of December 31, 2014). However, a bank may begin its operations with 50% of such amount, provided that it has a Regulatory Capital ratio (defined as Regulatory Capital as a percentage of risk weighted assets) of not less than 12%. When such a bank s paid in capital reaches UF 600,000 (Ch$14,776 million or U.S.$24.4 million as of December 31, 2014), the Regulatory Capital ratio requirement is reduced to 10%.

As of December 31, 2014 Banco de Chile fully complied with such minimum capital requirements.

Capital Adequacy Requirements

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

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

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

Table of Contents

As of December 31, 2014 Banco de Chile fully complied with such capital adequacy requirements.

Market Risk Regulations

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

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

The regulation provides that 8% of the sum of the risk-weighted assets and the price risk of the trading book may not be higher than Regulatory Capital. In light of the merger between Banco de Chile and Banco A. Edwards in 2002, the SBIF raised the applicable percentage for us from 8% to 10%. As of December 31, 2014, the price risk of our trading book totaled Ch$80,579 million.

The following table shows our regulatory risk availability, computed as the difference between the risk and our Regulatory Capital, as of December 31, 2014:

	As of December 31, 2014 (in millions of Ch$, except percentage)
(a) 10% risk-weighted assets	2,439,925
(b) Trading price risk	80,579
(c = a + b) Total risk	2,520,504
(d) Regulatory Capital	3,249,903
(e = d c) Risk Availability	729,399
(f = c/d) Risk used as a Percentage of Regulatory Capital	77.6%

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

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

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

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

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

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

The Current Mark-to-Market (CMTM) of the transaction, if positive, reflects the amount of money owed by the counterparty today, e.g. corresponding to the amount the counterparty would pay us if the transaction were unwound today. As we are interested in measuring the maximum amount of money that the customer would owe us within the life of the transaction, the

Table of Contents

maximum potential future value of the transaction is added to the CMTM. This potential value is measured as the Credit Risk Factor multiplied by the Notional Amount. Hence, the Credit Risk Factor reflects the potential value that the transaction may take in favor of the bank (under some confidence level) within its remaining tenor. The regulator determines the Credit Risk Factor by considering market factors (three categories: interest rates, FX rates or equity prices) involved in the respective transactions and the remaining tenor. In addition, banks usually develop their own Credit Risk Factors models to assess credit risk not only under regulatory guidelines. Netting and credit mitigation schemes, such as recouponing, early termination, margins, etc. have been allowed by regulators so that banks can better manage their credit risk.

Lending Limits

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

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

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

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

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

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

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

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

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

As of December 31, 2014 Banco de Chile fully complied the lending limits established by the General Banking Law.

Table of Contents

Classification of Banks

The SBIF 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 SBIF effective as of January 1, 2004, banks are classified into categories I through V based upon their solvency and management ratings. This classification is confidential.

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

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

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

Obligations Denominated in Foreign Currencies

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

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

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

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

Dissolution and Liquidation of Banks

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

Investments in Foreign Securities

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

Rating Agency	Short Term	Long Term
Moody s Investor Service (Moody s)	P2	Baa3
Standard and Poor s (S&P)	A2	BBB
Fitch Rating Service (Fitch)	F2	BBB
Dominion Bond Rating Service (DBRS)	R2	BBB (low)

Table of Contents

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

Rating Agency	Short Term	Long Term
Moody s Investor Service (Moody s)	P2	Ba3
Standard and Poor s (S&P)	A2	BB
Fitch Rating Service (Fitch)	F2	BB
Dominion Bond Rating Service (DBRS)	R2	BBB (low)

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

Rating Agency	Short Term	Long Term
Moody s Investor Service (Moody s)	P2	Ba3
Standard and Poor s (S&P)	A2	BB
Fitch Rating Service (Fitch)	F2	BB
Dominion Bond Rating Service (DBRS)	R2	BB (low)

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

Procedures for the Management of Information of Interest to the Market

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

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

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

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

Prevention of Money Laundering and the Financing of Terrorism

On December, 18, 2003 Law 19.913 created the Financial Analysis Unit and enacted new rules regarding money laundering. On March 6, 2006, the SBIF issued regulations governing the requirements applicable to banks with respect to prevention of money laundering and terrorism financing. The regulations, as amended, are aimed at incorporating international anti-money laundering (AML) and terrorism financing laws to the Chilean banking industry. Pursuant to these regulations, the SBIF requires that banks implement an Anti-Money Laundering and Terrorism Financing system based mainly on the know your customer concept. Moreover, these policies and procedures must be approved by the board of directors of each bank and must take into account the volume and complexity of its operations and other related parties.

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

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

identifying what the SBIF has defined as persons politically exposed (PEPs) both within Chile and abroad; and

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

Table of Contents

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

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

Consumer-Oriented Regulation

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

- new agreements entered into by banks and consumer must fully disclose the costs that the consumer assumes, as well as the periodicity, and the mechanisms to modify them. In addition, new agreements must fully disclose all terms, events of default, events of early termination, and automatic payments;
- banks must inform consumers periodically as to the complete, detailed cost of the banking product, as well as of the cost of the services rendered. The information must include the cost that the consumer will assume if he terminates the agreement before the end of its term;
- before rendering a service or delivering a product, banks must give the consumer a quote, which must include costs, rates, and conditions;
- if the consumer so wishes banks must terminate the rendering of a service;
- banks must inform guarantors as to their rights and obligations before they assume the role of guarantor;
- irrevocable mandates and mandates in blank are prohibited by the law;

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

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

This amendment became effective on March 5, 2012; however, with regards to banking product agreements entered into before such date, the amendment does not affect the substantive rights acquired by the parties in those agreements. This amendment created a new legal framework, Sernac Financiero , whose purpose is to monitor and oversee the relationship between customers and financial institutions, with a particular focus on lending activities and contracts.

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

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

All of these regulations are already implemented by Banco de Chile, except Sernac Seal, which is not mandatory.

On April 30, 2013, the SBIF revoked several regulations that governed in general terms the collection of fees and expenses, the possibility of collecting them in certain cases, changing the fees to be charged to customers, and their exclusion from the calculation of the effective interest rate. The SBIF said that this revocation occurred because, based on the amendments incorporated by law No 20,555, it lacks authority to continue regulating these matters.

On December 19, 2013, the Ministry of Economy published a regulation for the manner and conditions under which consumers validly express their consent to financial contracts. Additionally, this regulation established the effects of a customer s rejection or non-acceptance of an amendment proposed by the bank or other supplier. However, this regulation was revoked on March 26, 2014.

On March 17, 2015 the SBIF released Circular Nº 3,578, which provides a new set of minimum standards for the availability of banks ATM networks. These rules impose minimum levels of uptime for ATMs belonging to each institution in order to ensure desired levels of performance and service quality. Also, the SBIF has urged local banks to include the management of their ATM networks within their service policies and has required that they report relevant information periodically.

New Insurance Brokerage Regulations

On December 1, 2013, a new regulation affecting all insurance brokerage businesses in Chile became effective. This regulation is a result of Law No. 20,667 that was enacted on May 9, 2013 and Circular No. 2114 issued by the SVS on July 26, 2013. The new regulation establishes that, in the case of early termination of an insurance policy paid for in advance (for example, because of the early repayment of the related loan), all unearned premiums must be refunded to the customer by the company that issued the policy. This refund obligation includes both the unearned premiums and commissions relating to the remaining policy period, such as brokerage fees (e.g., the fees of our subsidiary Banchile Corredores de Seguros Limitada) and any other commissions. The premiums and commissions subject to refund will be calculated in proportion to the unelapsed period. This refund obligation applies with respect to insurance policies issued after this new regulation became effective. Prior to this new regulation, unearned premiums were refunded only if the early termination took place within the later of forty-five days after the issuance of the insurance policy, or one-tenth of the total term of the insurance policy (from the date of issuance). These refund obligations did not have a material effect on our results of operations in 2014. Similarly, no material effects are expected due to this regulation on our results of operations in 2015.

Table of Contents

New Maximum Legal Interest Rates

On December 13, 2013, a new law Law 20,715 regulating maximum interest rates became effective upon publication in the Chilean Official Gazette. This legislation affects all Chilean businesses that charge interests (including all banks, department stores and any other commerce or financial provider) on loans up to UF 200 (approximately U.S.$8,900), including installment loans, credit cards and credit lines related loans, as well as overdue loans. This regulation establishes among other things, a new methodology for calculating the maximum legal interest rate for loans not indexed to inflation longer than a 90-day term, which results in a reduction of the maximum legal interest rate applicable to such debtors. This law did not have a material effect on our results of operations for the fiscal year ended December 31, 2014. Similarly, no material effects are expected for 2015.

Bankruptcy Law

On October 10, 2014, a new Bankruptcy Law that aims to promote agreements and avoid liquidations became effective. Among the main changes introduced by this law is Article 57, which is intended to protect debtors and provides that, during a 30-day term beginning on the date of the appointment of observers:

(i) the creditors of a debtor may not request its liquidation;

(ii) no proceeding seeking the issuance of a warrant of attachment, execution or similar process may be initiated against a debtor;

(iii) no proceeding seeking the restitution of leased assets may be initiated against a debtor;

(iv) all proceedings referred to in (ii) and (iii) directly above will be suspended, as well as the term of the statute of limitations;

(v) all the agreements entered into by a debtor will remain valid and effective and its payments terms and conditions will remain in force. Consequently, these agreements may not be early terminated without the consent of the debtor nor be enforced, even if the commencement of a reorganization proceeding under the Bankruptcy Law constitutes an event of default under such agreement. Thus, any guarantees granted to secure the obligations of the debtor may not be enforced; and

(vi) if a debtor forms part of a public registry as a contractor or service provider, and it is in compliance with its obligations with the relevant principal, it cannot be excluded from such public registry and may not be prohibited from participating in any relevant bidding process.

Credit Risk Provisioning

On December 18, 2013 the SBIF published for comments a set of amendments to the regulations on allowances for loan losses and credit risk matters. A revised and final version of these guidelines was published on December 30, 2014 by the SBIF (Circular Nº 3,573).

The final version of the guidelines established a standardized method for calculating provisions for loan losses for residential mortgage loans, including the effects of past-due behavior and loan-to-value ratios, while supplementing and defining the treatment of provisions and credits composing the impaired loan portfolio. This set of rules also established standardized credit risk provisioning models for loan portfolios evaluated on a grouped basis. However, the circular clarified that standardized methods for evaluating commercial and consumer loans on a group basis, as well as the requirements for banks internally developed models, will be discussed and analyzed in 2015.

Lastly, the new guidelines also introduced changes for the treatment of factoring loans from a provisioning point of view, by taking into account the credit risk associated with the billed company. This new set of rules will go into effect on January 1, 2016.

Table of Contents

It is important to mention that the implementation of standardized credit risk provisioning models would only have an effect, if any, on our results of operations or financial condition prepared under Chilean GAAP, which differ to some extent from IFRS as issued by the IASB. The adoption of these guidelines will not have any impact on our results of operations or financial condition under IFRS.

Reporting of Operational Incidents

On March 23, 2015 the SBIF issued a new regulation on the reporting of operational incidents (Circular N° 3,579). According to this regulation, banks must report immediately to the SBIF certain types of significant operational incidents in order to keep the regulator properly informed. For purposes of the regulation, an operational incident is deemed significant if the event affects the business continuity, information security or reputation of the bank.

Table of Contents

ORGANIZATIONAL STRUCTURE

The following diagram presents our current corporate structure, including our subsidiaries and their respective direct ownership interests, as of April 17, 2015:

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

During 2014, we began a voluntary dissolution process for Banchile Trade Services Limited in Hong Kong. We expect to complete this process before the end of 2015.

PROPERTY, PLANT AND EQUIPMENT

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

As of December 31, 2014, we owned the properties on which 181 of our full-service branches and other points of sale are located (approximately 117,000 square meters of office space). Also, as of December 31, 2014, we had leased office space for 239 of our full-service branches with office space of approximately 66,000 square meters, while the remaining branches and other points of sale were managed through special partnership agreements between the property s owner and us. We also own properties throughout Chile for back office and administrative operations, as well as for storage of documents and other purposes. We believe that our facilities are adequate for our present needs and suitable for their intended purposes.

As of December 31, 2014, we also owned approximately 134,250 square meters in mainly recreational physical facilities in Chile, which we use to assist our employees in maintaining a healthy work and life balance and which we use for incentive and integration activities.

Table of Contents

SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2014 appearing elsewhere in this annual report and Item 5. Operating and Financial Review and Prospects.

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

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

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

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

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

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

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

Table of Contents

The following tables set forth, by currency of denomination, average balances and, where applicable, interest amounts and nominal rate for our assets and liabilities under IFRS for the years ended December 31, 2012, 2013 and 2014:

	For the Year Ended December 31,								
	2012			2013			2014		
IFRS:	Average Balance	Interest Earned[(1)]	Average Nominal Rate	Average Balance	Interest Earned[(1)]	Average Nominal Rate	Average Balance	Interest Earned[(1)]	Average Nominal Rate
	(in millions of Ch$, except percentages)								
Assets									
Interest earning assets									
Deposits in Central Bank									
Ch$	279,627	1,569	0.56%	294,427	1,386	0.47%	298,688	3,401	1.14%
UF									
Foreign currency	90,671	143	0.16	101,845	265	0.26	96,598	497	0.51
Total	**370,298**	**1,712**	**0.46**	**396,272**	**1,651**	**0.42**	**395,286**	**3,898**	**0.99**
Financial Investments									
Ch$	703,721	51,727	7.35	797,743	26,424	3.31	1,102,713	52,006	4.72
UF	788,630	38,889	4.93	930,818	50,314	5.41	647,066	51,175	7.91
Foreign currency	255,998	3,229	1.26	218,414	4,723	2.16	219,291	9,417	4.29
Total	**1,748,349**	**93,845**	**5.37**	**1,946,975**	**81,461**	**4.18**	**1,969,070**	**112,598**	5.72
Loans in advance to Banks									
Ch$	381,578	12,993	3.41	496,870	15,728	3.17	602,968	18,938	3.14
UF									
Foreign currency									
Total	**381,578**	**12,993**	**3.41**	**496,870**	**15,728**	**3.17**	**602,968**	**18,938**	**3.14**
Commercial loans									
Ch$	5,440,874	441,789	8.12	5,906,716	467,912	7.92	6,296,574	433,759	6.89
UF	3,983,001	285,516	7.17	4,464,635	308,227	6.90	4,834,705	372,748	7.71
Foreign currency	2,053,071	63,391	3.09	2,106,159	57,023	2.71	2,185,315	51,069	2.34
Total	**11,476,946**	**790,696**	**6.89**	**12,477,510**	**833,162**	**6.68**	**13,316,594**	**857,576**	**6.44**
Consumer Loans									
Ch$	2,597,069	518,787	19.98	2,834,958	562,721	19.85	3,068,810	564,660	18.40

UF	44,836	4,120	9.19	59,135	5,260	8.89	77,674	9,242	11.90
Foreign currency	12,329			15,739	6	0.04	20,395		
Total	**2,654,234**	**522,907**	**19.70**	**2,909,832**	**567,987**	**19.52**	**3,166,879**	**573,902**	**18.12**
Residential mortgage loans									
Ch$									
UF	3,924,080	266,625	6.79	4,455,850	288,888	6.48	5,082,293	497,258	9.78
Foreign currency									
Total	**3,924,080**	**266,625**	**6.79**	**4,455,850**	**288,888**	**6.48**	**5,082,293**	**497,258**	**9.78**
Repurchase agreements									
Ch$	42,109	2,786	6.62	27,382	1,649	6.02	27,704	1,355	4.89
UF									
Foreign currency									
Total	**42,109**	**2,786**	**6.62**	**27,382**	**1,649**	**6.02**	**27,704**	**1,355**	**4.89**
Total interest earning assets									
Ch$	9,444,978	1,029,651	10.90	10,358,096	1,075,820	10.39	11,397,457	1,074,119	9.42
UF	8,740,547	595,150	6.81	9,910,438	652,689	6.59	10,641,738	930,423	8.74
Foreign currency	2,412,069	66,763	2.77	2,442,157	62,017	2.54	2,521,599	60,983	2.42
Total	**Ch$ 20,597,594**	**Ch$ 1,691,564**	**8.21%**	**Ch$ 22,710,691**	**Ch$ 1,790,526**	**7.88%**	**Ch$ 24,560,794**	**Ch$ 2,065,525**	**8.41%**

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

Table of Contents

	For the Year Ended December 31,								
	2012			2013			2014		
IFRS:	Average Balance	Interest Earned(1)	Average Nominal Rate	Average Balance	Interest Earned(1)	Average Nominal Rate	Average Balance	Interest Earned(1)	Average Nominal Rate
	(in millions of Ch$, except percentages)								
Assets									
Non-interest earning assets									
Cash and due from banks									
Ch$	392,220			434,620			403,354		
UF									
Foreign currency	238,241			301,156			367,273		
Total	**630,461**			**735,776**			**770,627**		
Transactions in the course of collection									
Ch$	266,559			225,309			246,658		
UF									
Foreign currency	184,865			178,101			167,715		
Total	**451,424**			**403,410**			**414,373**		
Allowances for loan losses									
Ch$	(352,064)			(409,921)			(477,991)		
UF									
Foreign currency				(6)					
Total	**(352,064)**			**(409,927)**			**(477,991)**		
Derivatives									
Ch$	329,513			295,460			603,412		
UF									
Foreign currency	50,698			52,395			48,324		
Total	**380,211**			**347,855**			**651,736**		
Investments in Other Companies									
Ch$	15,686			15,525			20,245		
UF									
Foreign currency	15			41			47		
Total	**15,701**			**15,566**			**20,292**		
Intangible assets									

Ch$	70,335		74,709		68,359	
UF						
Foreign currency						
Total	**70,335**		**74,709**		**68,359**	
Fixed assets						
Ch$	208,650		201,991		202,385	
UF						
Foreign currency						
Total	**208,650**		**201,991**		**202,385**	
Current tax assets						
Ch$	1,922					
UF						
Foreign currency						
Total	**1,922**					
Deferred tax assets						
Ch$	116,737		44,785		62,783	
UF						
Foreign currency						
Total	**116,737**		**44,785**		**62,783**	
Other assets						
Ch$	224,076		205,980		173,425	
UF	55,582		61,560		55,948	
Foreign currency	37,359		30,868		100,899	
Total	**317,017**		**298,408**		**330,272**	
Total non-interest earning assets						
Ch$	1,273,634		1,088,458		1,302,630	
UF	55,582		61,560		55,948	
Foreign currency	511,177		562,555		684,258	
Total	**1,840,393**		**1,712,573**		**2,042,836**	
Total Assets						
Ch$	10,718,612	1,029,651	11,446,554	1,075,820	12,700,087	1,074,119
UF	8,796,129	595,150	9,971,998	652,689	10,697,686	930,423
Foreign currency	2,923,246	66,763	3,004,712	62,017	3,205,857	60,983
Total	**Ch$ 22,437,987**	**Ch$ 1,691,564**	**Ch$ 24,423,264**	**Ch$ 1,790,526**	**Ch$ 26,603,630**	**Ch$ 2,065,525**

Table of Contents

IFRS:	2012 Average Balance	2012 Interest Earned(1)	2012 Average Nominal Rate	2013 Average Balance	2013 Interest Earned(1)	2013 Average Nominal Rate	2014 Average Balance	2014 Interest Earned(1)	2014 Average Nominal Rate
	For the Year Ended December 31, (in millions of Ch$, except percentages)								
Liabilities									
Interest bearing liabilities									
Savings accounts									
Ch$	6,212,712	356,191	5.73%	6,836,894	354,636	5.19%	6,970,983	271,883	3.90%
UF	2,349,836	134,947	5.74	2,248,767	117,241	5.21	1,960,666	148,381	7.57
Foreign currency	817,575	6,790	0.83	756,822	3,312	0.44	792,571	2,435	0.31
Total	**9,380,123**	**497,928**	**5.31**	**9,842,483**	**475,189**	**4.83**	**9,724,220**	**422,699**	**4.35**
Repurchase agreements									
Ch$	278,456	14,975	5.38	285,107	13,148	4.61	257,477	9,479	3.68
UF	3,036	10	0.33	128			1,741	102	5.86
Foreign currency	2,452	1	0.02	3,872			3,083		
Total	**286,944**	**14,986**	**5.22**	**289,107**	**13,148**	**4.55**	**262,301**	**9,581**	**3.65**
Borrowings from financial institutions									
Ch$	35,705	3,050	8.54	140,055	3,307	2.36	277,597	1,054	0.38
UF	36			13			9	1	11.11
Foreign currency	1,399,621	19,258	1.38	1,061,798	10,484	0.99	859,593	6,111	0.71
Total	**1,435,362**	**22,308**	**1.55**	**1,201,866**	**13,791**	**1.15**	**1,137,199**	**7,166**	**0.63**
Debt issued									
Ch$	36,866	1,048	2.84	22,731	1,132	4.98	12,179	2,123	17.43
UF	2,516,157	160,071	6.36	3,075,889	182,824	5.94	3,401,241	316,902	9.32
Foreign currency	285,147	9,103	3.19	672,589	15,374	2.29	1,483,580	25,301	1.71
Total	**2,838,170**	**170,222**	**6.00**	**3,771,209**	**199,330**	**5.29**	**4,897,000**	**344,326**	**7.03**
Other financial obligations									
Ch$	95,187	1,525	1.60	101,782	1,473	1.45	108,487	1,356	1.25
UF	26,078	1,501	5.76	21,757	1,398	6.43	16,690	3,640	21.81
Foreign currency	49,712	159	0.32	50,329	42	0.08	64,982	20	0.03
Total	**170,977**	**3,185**	**1.86**	**173,868**	**2,913**	**1.68**	**190,159**	**5,016**	**2.64**

Total interest bearing liabilities									
Ch$	6,658,926	376,789	5.66	7,386,569	373,696	5.06	7,626,723	285,895	3.75
UF	4,895,143	296,529	6.06	5,346,554	301,463	5.64	5,380,347	469,026	8.72
Foreign currency	2,557,507	35,311	1.38	2,545,410	29,212	1.15	3,203,809	33,867	1.06
Total	**Ch$ 14,111,576**	**Ch$ 708,629**	**5.02%**	**Ch$ 15,278,533**	**Ch$ 704,371**	**4.61%**	**Ch$ 16,210,879**	**Ch$ 788,788**	**4.87%**

Table of Contents

IFRS:	2012 Average Balance	2012 Interest Earned(1)	2012 Average Nominal Rate	2013 Average Balance	2013 Interest Earned(1)	2013 Average Nominal Rate	2014 Average Balance	2014 Interest Earned(1)	2014 Average Nominal Rate
	For the Year Ended December 31, (in millions of Ch$, except percentages)								
Liabilities									
Non-interest bearing liabilities									
Current account and demand deposits									
Ch$	4,093,133			4,576,645			5,109,950		
UF	159,501			164,012			185,098		
Foreign currency	673,841			714,685			929,007		
Total	**4,926,475**			**5,455,342**			**6,224,055**		
Transactions in the course of payment									
Ch$	127,303			84,307			108,117		
UF									
Foreign currency	175,972			148,098			138,669		
Total	**303,275**			**232,405**			**246,786**		
Derivatives									
Ch$	338,598			313,315			588,001		
UF									
Foreign currency	92,303			78,467			68,076		
Total	**430,901**			**391,782**			**656,077**		
Current tax liabilities									
Ch$	12,470			5,401			3,864		
UF									
Foreign currency									
Total	**12,470**			**5,401**			**3,864**		
Deferred tax liabilities									
Ch$	56,830								
UF									
Foreign currency									
Total	**56,830**								
Provisions									
Ch$	98,794			110,187			183,730		
UF									
Foreign currency									
Total	**98,794**			**110,187**			**183,730**		

Other liabilities						
Ch$	237,218		243,424		193,974	
UF	15,891		17,266		17,654	
Foreign currency	33,788		27,758		27,810	
Total	**286,897**		**288,448**		**239,438**	
Equity						
Ch$	2,210,769		2,661,166		2,838,801	
UF						
Foreign currency						
Total	**2,210,769**		**2,661,166**		**2,838,801**	
Total non-interest bearing liabilities and equity						
Ch$	7,175,115		7,994,445		9,026,437	
UF	175,392		181,278		202,752	
Foreign currency	975,904		969,008		1,163,562	
Total	**8,326,411**		**9,144,731**		**10,392,751**	
Total liabilities and equity						
Ch$	13,834,041	376,774	15,381,014	373,696	16,653,160	285,895
UF	5,070,535	296,437	5,527,832	301,463	5,583,099	469,026
Foreign currency	3,533,411	42,260	3,514,418	29,212	4,367,371	33,867
Total	**Ch$ 22,437,987**	**Ch$ 715,471**	**Ch$ 24,423,264**	**Ch$ 704,371**	**Ch$ 26,603,630**	**Ch$ 788,788**

Table of Contents

Interest Earning Assets and Net Interest Margin

The following table sets forth, by currency of denomination, the levels of our average interest earning assets and net interest, and illustrates the comparative margins obtained, for the years ended December 31, 2012, 2013 and 2014:

	For the Year Ended December 31,		
	2012	2013	2014
IFRS:	(in millions of Ch$, except percentages)		
Total average interest earning assets			
Ch$	Ch$ 9,444,978	Ch$ 10,358,096	Ch$ 11,397,457
UF	8,740,547	9,910,438	10,641,738
Foreign currency	2,412,069	2,442,157	2,521,599
Total	**20,597,594**	**22,710,691**	**24,560,794**
Net interest earned (including interest earned on trading securities)[1]			
Ch$	652,862	702,124	788,224
UF	298,621	351,226	461,397
Foreign currency	31,452	32,805	27,116
Total	**Ch$ 982,935**	**Ch$ 1,086,155**	**Ch$ 1,276,737**
Net interest margin, nominal basis[2]			
Ch$	6.91%	6.78%	6.92%
UF	3.42	3.54	4.34
Foreign currency	1.30	1.34	1.08
Total	**4.77%**	**4.78%**	**5.20%**

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

Table of Contents

Changes in Net Interest Income   Volume and Rate Analysis

The following tables compare, by currency of denomination, changes in our net interest revenue between 2012 and 2013, as well as 2013 and 2014, caused by (i) changes in the average volume of interest earning assets and interest bearing liabilities and (ii) changes in their respective nominal interest rates. Volume and rate variances were calculated based on movements in average balances over the period and changes in nominal interest rate, average interest earning assets and average interest bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change in volume and the change in rate.

IFRS:	Increase (Decrease) from 2012 to 2013 due to changes in Volume	Rate	Net Change from 2012 to 2013	Increase (Decrease) from 2013 to 2014 due to changes in Volume	Rate	Net Change from 2013 to 2014
			(in millions of Ch$)			
Assets						
Interest earning assets						
Deposits in Central Bank						
Ch$	Ch$ 80	Ch$ (263)	Ch$ (183)	Ch$ 20	Ch$ 1,995	Ch$ 2,015
UF						
Foreign currency	19	103	122	(14)	246	232
Total	**99**	**(160)**	**(61)**	**6**	**2,241**	**2,247**
Financial investments						
Ch$	6,168	(31,471)	(25,303)	12,132	13,450	25,282
UF	7,451	3,974	11,425	(18,157)	19,018	861
Foreign currency	(532)	2,026	1,494	19	4,675	4,694
Total	**13,087**	**(25,471)**	**(12,384)**	**(6,006)**	**37,143**	**31,137**
Loans in advance to bank						
Ch$	3,702	(967)	2,735	3,333	(123)	3,210
UF						
Foreign currency						
Total	**3,702**	**(967)**	**2,735**	**3,333**	**(123)**	**3,210**
Commercial loans						
Ch$	37,107	(10,984)	26,123	29,530	(63,683)	(34,153)
UF	33,549	(10,838)	22,711	26,787	37,734	64,521
Foreign currency	1,604	(7,972)	(6,368)	2,080	(8,034)	(5,954)
Total	**72,260**	**(29,794)**	**42,466**	**58,397**	**(33,983)**	**24,414**
Consumer loans						
Ch$	47,239	(3,305)	43,934	44,620	(42,681)	1,939
UF	1,276	(136)	1,140	1,917	2,065	3,982
Foreign currency		6	6	1	(7)	(6)
Total	**48,515**	**(3,435)**	**45,080**	**46,538**	**(40,623)**	**5,915**
Residential mortgage loans						
Ch$						
UF	34,895	(12,632)	22,263	45,089	163,281	208,370
Foreign currency						

Total	**34,895**	**(12,632)**	**22,263**	**45,089**	**163,281**	**208,370**
Repurchase agreement						
Ch$	(905)	(232)	(1,137)	19	(313)	(294)
UF						
Foreign currency						
Total	**(905)**	**(232)**	**(1,137)**	**19**	**(313)**	**(294)**
Total interest earning assets						
Ch$	93,391	(47,222)	46,169	89,654	(91,355)	(1,701)
UF	77,171	(19,632)	57,539	55,636	222,098	277,734
Foreign currency	1,091	(5,837)	(4,746)	2,086	(3,120)	(1,034)
Total	**Ch$ 171,653**	**Ch$ (72,691)**	**Ch$ 98,962**	**Ch$ 147,376**	**Ch$ 127,623**	**Ch$ 274,999**

Table of Contents

IFRS:	Increase (Decrease) from 2012 to 2013 due to changes in Volume	Rate	Net Change from 2012 to 2013	Increase (Decrease) from 2013 to 2014 due to changes in Volume	Rate	Net Change from 2013 to 2014
			(in millions of Ch$)			
Liabilities						
Interest bearing liabilities						
Savings accounts and time deposits						
Ch$	Ch$ 34,036	Ch$ (35,591)	Ch$ (1,555)	Ch$ 6,829	Ch$ (89,582)	Ch$ (82,753)
UF	(5,634)	(12,072)	(17,706)	(16,519)	47,659	31,140
Foreign currency	(472)	(3,006)	(3,478)	150	(1,027)	(877)
Total	**27,930**	**(50,669)**	**(22,739)**	**(9,540)**	**(42,950)**	**(52,490)**
Repurchase agreements						
Ch$	350	(2,177)	(1,827)	(1,191)	(2,478)	(3,669)
UF	(5)	(5)	(10)		102	102
Foreign currency		(1)	(1)			
Total	**345**	**(2,183)**	**(1,838)**	**(1,191)**	**(2,376)**	**(3,567)**
Borrowing from financial institutions						
Ch$	3,744	(3,487)	257	1,778	(4,031)	(2,253)
UF					1	1
Foreign currency	(4,043)	(4,731)	(8,774)	(1,770)	(2,603)	(4,373)
Total	**(299)**	**(8,218)**	**(8,517)**	**8**	**(6,633)**	**(6,625)**
Debt issued						
Ch$	(504)	588	84	(731)	1,722	991
UF	33,803	(11,050)	22,753	21,062	113,016	134,078
Foreign currency	9,463	(3,192)	6,271	14,649	(4,722)	9,927
Total	**42,762**	**(13,654)**	**29,108**	**34,980**	**110,016**	**144,996**
Other financial obligation						
Ch$	101	(153)	(52)	93	(210)	(117)
UF	(266)	163	(103)	(395)	2,637	2,242
Foreign currency	2	(119)	(117)	10	(32)	(22)
Total	**(163)**	**(109)**	**(272)**	**(292)**	**2,395**	**2,103**
Total interest bearing liabilities						
Ch$	37,727	(40,820)	(3,093)	6,778	(94,579)	(87,801)
UF	27,898	(22,964)	4,934	4,148	163,415	167,563
Foreign currency	4,950	(11,049)	(6,099)	13,039	(8,384)	4,655
Total	**Ch$ 70,575**	**Ch$ (74,833)**	**Ch$ (4,258)**	**Ch$ 23,965**	**Ch$ 60,452**	**Ch$ 84,417**

Table of Contents

Financial Investments

Financial assets held for trading:

The following table sets forth a breakdown of instruments classified as financial assets held-for-trading, included in our investment portfolio:

IFRS:	2012	As of December 31, 2013 (in millions of Ch$)	2014	Weighted Average Nominal Rate as of December 31, 2014 %
Instruments issued by the Chilean Government and the Central Bank:				
Central Bank bonds	Ch$ 25,585	Ch$ 34,407	Ch$ 13,906	2.95%
Central Bank promissory notes	3,068	2,995	2,996	2.76
Other instruments issued by the Chilean Government and the Central Bank	43,726	27,535	71,968	3.07
Other securities issued in Chile:				
Mortgage bonds from domestic banks	22	14	9	3.75
Bonds from domestic banks		1,926	3,197	4.93
Deposits in domestic banks	87,093	255,582	199,665	3.77
Bonds from other Chilean companies		3,427	1,351	12.01
Other instruments issued in Chile	188	1,035	366	
Instruments issued by foreign institutions:				
Instruments from foreign governments or central banks				
Other instruments issued abroad				
Total	**Ch$ 159,682**	**Ch$ 326,921**	**Ch$ 293,458**	**3.60%**

Other securities issued in Chile includes instruments sold under repurchase agreements with customers and financial instruments, amounting to Ch$86,863 million as of December 31, 2012, Ch$227,453 million as of December 31, 2013 and Ch$194,074 million as of December 31, 2014. Instruments issued by the Chilean Government and the Central Bank include instruments sold under agreements to repurchase to customers and financial institutions. For these instruments, there were no balances as of December 31, 2012, 2013 or 2014.

76

Table of Contents

Investment Portfolio:

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

Financial assets available-for-sale

IFRS:	2012	As of December 31, 2013 (in millions of Ch$)	2014	Weighted average nominal rate as of December 31, 2014 %
Instruments issued by the Chilean Government and the Central Bank:				
Bonds issued by the Chilean Government and the Central Bank	Ch$ 110,569	Ch$ 333,035	Ch$ 28,795	3.28%
Promissory notes issued by the Chilean Government and the Central Bank	969	50,415	149,755	2.81
Other instruments	140,246	202,958	160,774	3.95
Other instruments issued in Chile:				
Equity instruments valued at cost	613	352	358	
Equity instruments valued at fair value	7,263	7,827	8,249	
Mortgage bonds from domestic banks	85,688	96,933	96,294	4.04
Bonds from domestic banks	116,100	128,500	251,231	3.08
Deposits from domestic banks	560,390	617,816	657,467	4.03
Bonds from other Chilean companies	32,281	13,558	29,519	4.46
Other instruments	129,693	154,267	162,829	6.04
Instruments issued by Foreign Institutions:				
Instruments from foreign governments or central banks				
Other instruments issued abroad	88,504	76,222	63,525	5.05
Total	**Ch$ 1,272,316**	**Ch$ 1,681,883**	**Ch$ 1,608,796**	**4.00%**

The portfolio of financial assets available for sale included net unrealized gains of Ch$ 24,829 million, Ch$36,443 million and Ch$40,929 million as of December 31, 2012, 2013, and 2014, respectively, in each case recorded in other comprehensive income within equity.

Financial assets held to maturity

There are no securities reported under this category as of December 31, 2012, 2013 and 2014.

Maturity of Financial Investments:

The maturities of financial assets held-for-trading and financial assets available-for-sale as of December 31, 2012, 2013 and 2014 were as follows:

	As of December 31, 2012								
	Due within 1 year	Weighted Average Nominal Rate	Due after 1 year but within 5 years	Weighted Average Nominal Rate	Due after 5 year but within 10 years	Weighted Average Nominal Rate	Due after 10 years	Weighted Average Nominal Rate	Total
	(millions of Ch$, except percentages)								
Financial assets held for trading:									
Instruments issued by the Chilean Government and the Central Bank:									
Central Bank bonds	Ch$ 25,585	2.70%	Ch$	%	Ch$	%	Ch$	%	Ch$ 25,585
Central Bank promissory notes	3,068	4.50							3,068
Other instruments issued by the Chilean Government and the Central Bank	43,726	2.59							43,726
Other securities issued in Chile:									
Mortgage bonds from domestic banks	22	5.40							22
Bonds from domestic banks									
Deposits in domestic banks	87,093	6.98							87,093
Bonds from other Chilean companies									
Other instruments issued in Chile	188								188
Instruments issued by foreign institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad									
Total	**Ch$ 159,682**	**5.04%**	**Ch$**	**%**	**Ch$**	**%**	**Ch$**	**%**	**Ch$ 159,682**

Table of Contents

	As of December 31, 2013								
	Due within 1 year	Weighted Average Nominal Rate	Due after 1 year but within 5 years	Weighted Average Nominal Rate	Due after 5 year but within 10 years	Weighted Average Nominal Rate	Due after 10 years	Weighted Average Nominal Rate	Total
	(millions of Ch$, except percentages)								
Financial assets held for trading:									
Instruments issued by the Chilean Government and the Central Bank:									
Central Bank bonds	Ch$ 34,407	2.32%	Ch$	%	Ch$	%	Ch$	%	Ch$ 34,407
Central Bank promissory notes	2,995	3.84							2,995
Other instruments issued by the Chilean Government and the Central Bank	27,535	2.26							27,535
Other securities issued in Chile:									
Mortgage bonds from domestic banks	14	3.88							14
Bonds from domestic banks	1,926	4.00							1,926
Deposits in domestic banks	255,582	4.44							255,582
Bonds from other Chilean companies	3,427	10.94							3,427
Other instruments issued in Chile	1,035								1,035
Instruments issued by foreign institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad									
Total	**Ch$ 326,921**	**4.10%**	**Ch$**		**Ch$**	**%**	**Ch$**	**%**	**Ch$ 326,921**

	As of December 31, 2014								
	Due within 1 year	Weighted Average Nominal Rate	Due after 1 year but within 5 years	Weighted Average Nominal Rate	Due after 5 year but within 10 years	Weighted Average Nominal Rate	Due after 10 years	Weighted Average Nominal Rate	Total
	(millions of Ch$, except percentages)								
Financial assets held for trading:									
Instruments issued by the Chilean Government and the Central Bank:									
Central Bank bonds	Ch$ 13,906	2.95%	Ch$	%	Ch$	%	Ch$	%	Ch$ 13,906
Central Bank promissory notes	2,996	2.76							2,996
Other instruments issued by the Chilean Government and the Central Bank	71,968	3.07							71,968
Other securities issued in Chile:									
Mortgage bonds from domestic banks	9	3.75							9
Bonds from domestic banks	3,197	4.93							3,197
Deposits in domestic banks	199,665	3.77							199,665
Bonds from other Chilean companies	1,351	12.01							1,351
Other instruments issued in Chile	366								366
Instruments issued by foreign institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad									
Total	**Ch$ 293,458**	**3.60%**	**Ch$**		**Ch$**	**%**	**Ch$**	**%**	**Ch$ 293,458**

Table of Contents

	As of December 31, 2012								
	Due within 1 year	Weighted Average Nominal Rate	Due after 1 year but within 5 years	Weighted Average Nominal Rate	Due after 5 year but within 10 years	Weighted Average Nominal Rate	Due after 10 years	Weighted Average Nominal Rate	Total
	(millions of Ch$, except percentages)								
Financial assets available-for-sale:									
Instruments issued by the Chilean Government and the Central Bank:									
Bonds issued by the Chilean Government and the Central Bank	Ch$ 36,773	4.73%	Ch$ 73,796	3.62%	Ch$	%	Ch$	%	Ch$ 110,569
Promissory notes issued by the Chilean Government and the Central Bank	231	3.46	369	3.18	369	3.18			969
Other instruments	38,466	3.06	96,008	3.35	5,772	3.89			140,246
Other instruments issued in Chile:									
Equity instruments valued at cost							613		613
Equity instruments valued at fair value							7,263		7,263
Mortgage bonds from domestic banks	7,275	3.84	28,446	3.83	29,420	3.84	20,547	3.79	85,688
Bonds from domestic banks	29,800	4.55	68,111	3.94	16,144	3.81	2,045	3.80	116,100
Deposits from domestic banks	549,390	6.91	11,000	5.23					560,390
Bonds from other Chilean companies	4,687	6.13	9,464	5.56	9,845	5.77	8,285	3.95	32,281
Other instruments	2,567	6.23	48,940	6.70	73,089	5.82	5,097	5.92	129,693
Instruments issued by Foreign Institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad					57,966	5.39	30,538		88,504
Total	**Ch$ 669,189**	**6.42%**	**Ch$ 336,134**	**4.18%**	**Ch$ 192,605**	**5.15%**	**Ch$ 74,388**	**4.13%**	**Ch$ 1,272,316**

	As of December 31, 2013								
	Due within 1 year	Weighted Average Nominal Rate	Due after 1 year but within 5 years	Weighted Average Nominal Rate	Due after 5 year but within 10 years	Weighted Average Nominal Rate	Due after 10 years	Weighted Average Nominal Rate	Total
	(millions of Ch$, except percentages)								
Financial assets available-for-sale:									
Instruments issued by the Chilean Government and the									

Central Bank:									
Bonds issued by the Chilean Government and the Central Bank	Ch$ 71,411	2.51%	Ch$ 254,295	2.49%	Ch$ 7,329	4.93%	Ch$	%	Ch$ 333,035
Promissory notes issued by the Chilean Government and the Central Bank	50,415	3.84							50,415
Other instruments	28,817	3.14	112,112	3.13	61,954	4.41	75	3.66	202,958
Other instruments issued in Chile:									
Equity instruments valued at cost							352		352
Equity instruments valued at fair value							7,827		7,827
Mortgage bonds from domestic banks	8,927	3.97	35,103	3.97	35,018	4.02	17,885	4.02	96,933
Bonds from domestic banks	30,116	3.55	86,357	3.59	11,266	4.74	761	3.87	128,500
Deposits from domestic banks	601,393	3.57	16,423	3.30					617,816
Bonds from other Chilean companies	599	4.90	6,510	6.28	2,432	5.11	4,017	5.14	13,558
Other instruments	13,715	7.23	39,280	6.53	99,008	5.83	2,264	7.17	154,267
Instruments issued by Foreign Institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad					33,985	5.27	42,237		76,222
Total	**Ch$ 805,393**	**3.54%**	**Ch$ 550,080**	**3.25%**	**Ch$ 250,992**	**5.07%**	**Ch$ 75,418**	**4.48%**	**Ch$ 1,681,883**

Table of Contents

	As of December 31, 2014								
	Due within 1 year	**Weighted Average Nominal Rate**	**Due after 1 year but within 5 years**	**Weighted Average Nominal Rate**	**Due after 5 year but within 10 years**	**Weighted Average Nominal Rate**	**Due after 10 years**	**Weighted Average Nominal Rate**	**Total**
				(millions of Ch$, except percentages)					
Financial assets available-for-sale:									
Instruments issued by the Chilean Government and the Central Bank:									
Bonds issued by the Chilean Government and the Central Bank	Ch$ 8,137	3.27%	Ch$ 20,501	3.28%	Ch$ 157	4.04%	Ch$	%	Ch$ 28,795
Promissory notes issued by the Chilean Government and the Central Bank	149,755	2.81							149,755
Other instruments	19,341	3.42	64,457	3.48	52,937	4.67	24,039	4.06	160,774
Other instruments issued in Chile:									
Equity instruments valued at cost							358		358
Equity instruments valued at fair value							8,249		8,249
Mortgage bonds from domestic banks	9,468	4.04	36,374	4.04	34,374	4.07	16,078	3.96	96,294
Bonds from domestic banks	31,034	3.07	124,048	3.07	91,239	3.07	4,910	3.33	251,231
Deposits from domestic banks	612,883	4.07	44,584	3.41					657,467
Bonds from other Chilean companies	1,576	4.28	10,829	5.49	5,260	3.97	11,854	3.75	29,519
Other instruments	17,389	6.36	92,670	6.00	49,845	5.92	2,925	7.17	162,829
Instruments issued by Foreign Institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad			3,211	5.09	1,938	5.00	58,376		63,525
Total	**Ch$ 849,583**	**3.84%**	**Ch$ 396,674**	**4.04%**	**Ch$ 235,750**	**4.21%**	**Ch$ 126,789**	**4.06%**	**Ch$ 1,608,796**

Table of Contents

Loan Portfolio

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

IFRS:	2010	2011	As of December 31, 2012 (in millions of Ch$)	2013	2014
Commercial loans:					
Commercial loans	6,969,374	7,872,546	8,544,960	9,891,258	9,626,704
Foreign trade loans	913,658	1,509,147	1,240,955	1,154,681	1,266,799
Current account debtors	122,106	214,479	189,399	259,289	310,135
Factoring transactions	477,133	589,098	606,137	524,059	478,735
Commercial lease transactions	777,294	996,566	1,113,272	1,209,747	1,381,522
Other loans and accounts receivable	37,841	31,607	40,647	39,939	46,851
Subtotal	9,297,406	11,213,443	11,735,370	13,078,973	13,110,746
Mortgage loans:					
Mortgage bonds	164,474	134,377	109,215	87,354	70,104
Endorsable mortgage loans	205,260	175,258	151,206	122,905	104,175
Other residential real estate mortgage loans	2,556,335	3,297,331	3,937,766	4,516,822	5,237,631
Residential lease transactions			27	24	21
Other loans and accounts receivable	552	468	453	5,202	6,692
Subtotal	2,926,621	3,607,434	4,198,667	4,732,307	5,418,623
Consumer loans:					
Consumer loans in installments	1,482,056	1,763,101	1,912,483	2,043,955	2,206,324
Current account debtors	230,767	232,972	245,066	240,952	271,820
Credit card debtors	440,791	569,290	679,986	783,782	883,010
Consumer lease transactions					
Other loans and accounts receivable	354	257	189	801	810
Subtotal	2,153,968	2,565,620	2,837,724	3,069,490	3,361,964
Total loans	**14,377,995**	**17,386,497**	**18,771,761**	**20,880,770**	**21,891,333**

The loan categories are as follows:

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

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

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

Table of Contents

Maturity and Interest Rate Sensitivity of Loans as of December 31, 2014

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2014:

	Balances as of December 31, 2014	Due within 1 month	Due after 1 month but within 6 months	Due after 6 months but within 12 months (in millions of Ch$)	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years
IFRS:							
Commercial Loans:							
Commercial loans	Ch$ 9,626,704	Ch$ 1,134,925	Ch$ 1,896,371	Ch$ 1,196,508	Ch$ 2,685,512	Ch$ 1,214,086	Ch$ 1,499,302
Foreign trade loans	1,266,799	291,303	761,100	149,831	56,353	7,032	1,180
Current account debtors	310,135	310,135					
Factoring loans	478,735	286,073	159,492	8,978	19,691	4,289	212
Leasing loans	1,381,522	44,892	183,669	189,033	482,194	217,624	264,110
Other loans	46,851	17,668	27,036	1,008	1,003	127	9
Subtotal	13,110,746	2,084,996	3,027,668	1,545,358	3,244,753	1,443,158	1,764,813
Mortgage Loans:							
Mortgage bonds	70,104	1,986	5,636	6,903	21,914	15,329	18,336
Endorsable mortgage loans	104,175	1,738	5,775	6,842	24,849	20,747	44,224
Residential mortgage loans	5,237,631	43,183	109,350	133,087	553,863	569,721	3,828,427
Leasing loans	21	21					
Other loans	6,692	2,334	3,540	765	53		
Subtotal	5,418,623	49,262	124,301	147,597	600,679	605,797	3,890,987
Consumer Loans:							
Consumer loans	2,206,324	141,371	393,679	384,233	985,853	279,655	21,533
Current accounts debtors	271,820	271,819					1
Credit card	883,010	129,293	753,717				
Other loans	810	810					
Subtotal	3,361,964	543,293	1,147,396	384,233	985,853	279,655	21,534
Total Loans	**Ch$ 21,891,333**	**Ch$ 2,677,551**	**Ch$ 4,299,365**	**Ch$ 2,077,188**	**Ch$ 4,831,285**	**Ch$ 2,328,610**	**Ch$ 5,677,334**

Table of Contents

The following table sets forth the interest rate sensitivity of our outstanding loans due after one year as of December 31, 2014:

	As of December 31, 2014 (in millions of Ch$)
IFRS:	
Variable rate	
Ch$	Ch$ 866,025
UF	730,778
Foreign currency	608,197
Total	**2,205,000**
Fixed rate	
Ch$	2,737,301
UF	7,685,023
Foreign currency	209,905
Total	**10,632,229**
Total	**Ch$ 12,837,229**

83

Table of Contents

Loans by Economic Activity

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

	As of December 31,									
	2010		2011		2012		2013		2014	
IFRS:	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio
	(in millions of Ch$, except percentages)									
Agriculture, Livestock, Forestry, Agribusiness, Fishing:										
Agriculture and livestock	Ch$ 420,384	2.92%	Ch$ 482,392	2.77%	Ch$ 380,239	2.43%	Ch$ 425,905	2.04%	Ch$ 452,077	2.07%
Fruit	275,060	1.91	329,728	1.90	318,241	1.70	365,930	1.75	381,528	1.74
Forestry and wood extraction	70,765	0.49	100,799	0.58	125,236	0.67	122,270	0.59	118,034	0.54
Fishing	238,835	1.66	271,901	1.56	311,477	1.25	219,173	1.05	261,375	1.19
Subtotal	1,005,044	6.98	1,184,820	6.81	1,135,193	6.05	1,133,278	5.43	1,213,014	5.54
Mining and Petroleum:										
Mining and quarries	177,479	1.23	399,752	2.30	372,437	1.98	340,045	1.63	362,276	1.65
Natural gas and crude oil extraction	2,599	0.02								
Subtotal	180,078	1.25	399,752	2.30	372,437	1.98	340,045	1.63	362,276	1.65
Manufacturing:										
Tobacco, food and beverages	434,796	3.02	509,613	2.93	499,700	2.66	516,540	2.47	510,127	2.33
Textiles, clothing and leather goods	46,946	0.33	51,416	0.30	167,500	0.89	51,379	0.25	56,036	0.26
Wood and wood products	29,874	0.21	28,582	0.16	31,055	0.17	26,142	0.13	60,603	0.28
Paper, printing and publishing	54,337	0.38	68,534	0.39	60,355	0.32	64,281	0.31	49,948	0.23
Oil refining, carbon and rubber	28,214	0.20	93,080	0.54	64,708	0.34	249,481	1.19	338,582	1.55
Production of basic metal, non-mineral, machine and equipment	338,057	2.35	375,500	2.16	356,290	1.90	251,842	1.21	363,444	1.66
Other manufacturing industries	202,777	1.41	362,094	2.08	201,386	1.08	205,897	0.98	127,852	0.58
Subtotal	1,135,001	7.90	1,488,819	8.56	1,380,994	7.36	1,365,562	6.54	1,506,592	6.89
Electricity, Gas and Water:										
	310,774	2.16	315,338	1.81	328,763	1.75	531,973	2.55	442,068	2.02

Electricity, gas and water										
Subtotal	310,774	2.16	315,338	1.81	328,763	1.75	531,973	2.55	442,068	2.02
Construction:										
Residential buildings	609,532	4.25	793,842	4.57	1,074,856	5.73	1,306,852	6.26	1,365,105	6.24
Other constructions	114,745	0.80	151,000	0.86	177,690	0.94	151,229	0.72	69,405	0.32
Subtotal	724,277	5.05	944,842	5.43	1,252,546	6.67	1,458,081	6.98	1,434,510	6.56
Commerce:										
Wholesale	746,448	5.19	1,020,572	5.87	921,459	4.91	1,087,933	5.21	1,220,832	5.58
Retail, restaurants and hotels	1,260,721	8.77	1,266,716	7.29	1,403,210	7.47	1,465,032	7.02	1,194,009	5.45
Subtotal	2,007,169	13.96	2,287,288	13.16	2,324,669	12.38	2,552,965	12.23	2,414,841	11.03
Transport, Storage and Communications:										
Transport and storage	1,079,386	7.51	1,244,499	7.16	1,397,741	7.45	1,493,043	7.15	1,610,818	7.36
Communications	99,726	0.69	162,859	0.93	72,617	0.38	109,305	0.52	59,673	0.27
Subtotal	1,179,112	8.20	1,407,358	8.09	1,470,358	7.83	1,602,348	7.67	1,670,491	7.63
Financial Services:										
Financial and insurance companies	1,615,006	11.23	1,937,788	11.15	1,796,921	9.57	2,009,136	9.62	1,811,389	8.27
Real estate and other financial services	83,580	0.58	83,723	0.48	57,650	0.31	41,119	0.20	87,727	0.40
Subtotal	1,698,586	11.81	2,021,511	11.63	1,854,571	9.88	2,050,255	9.82	1,899,116	8.67
Community, Social and Personal Services:										
Community, social and personal services	1,050,616	7.31	1,084,380	6.24	1,310,573	6.98	1,631,412	7.81	1,587,473	7.25
Subtotal	1,050,616	7.31	1,084,380	6.24	1,310,573	6.98	1,631,412	7.81	1,587,473	7.25
Others	325		79,335	0.46	311,476	1.67	421,848	2.02	580,365	2.65
Consumer Loans	2,159,235	15.02	2,565,620	14.76	2,831,514	15.08	3,060,696	14.66	3,361,964	15.36
Residential Mortgage Loans	2,927,778	20.36	3,607,434	20.75	4,198,667	22.37	4,732,307	22.66	5,418,623	24.75
Total	**Ch$ 14,377,995**	**100.00%**	**Ch$ 17,386,497**	**100.00%**	**Ch$ 18,771,761**	**100.00%**	**Ch$ 20,880,770**	**100.00%**	**Ch$ 21,891,333**	**100.00%**

Table of Contents

Foreign Country Outstanding Loans

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

			As of December 31,		
	2010	2011	2012	2013	2014
IFRS:			(in millions of Ch$)		
Argentina	Ch$ 3,307	Ch$ 5,241	Ch$ 4,841	Ch$ 5,300	Ch$
Brazil	21,100	18,231	26,440	13,824	33,295
China					22,857
Colombia	7,967	12,101	4,806	5,270	6,075
Costa Rico	6,138				
El Salvador	4,239				
India		15,656	14,476	15,855	18,284
Mexico	36,273	74,458	57,800		61,225
Netherlands		13,769	3,342	15,666	18,108
Panama				1,054	
Peru	2,008	2,515	16,497	26,287	33,233
Uruguay	165				
Singapore		10,369	9,486		
United Kingdom		11,345	7,325		
United States		5,568	17,472	21,971	
Total	Ch$ 81,197	Ch$ 169,253	Ch$ 162,485	Ch$ 105,227	Ch$ 193,077

As a result of the economic and financial uncertainty observed in the Euro zone since the financial turmoil of 2008, the Bank is constantly monitoring the credit risk condition of certain European countries. In this line, as of December 31, 2014, the Bank only maintained exposures associated with contingent credits (standby letters of credits and performance bonds) with certain European countries, as follows:

	As of December 31, 2014 (in millions of Ch$)
Italy	1,879
Spain	9,576
Total	**11,455**

As of December 31, 2014, the Bank does not have any exposure relating to any other product such as: financial assets available for sale, financial assets held for trading, derivatives instruments, working capital, lines of credit, etc. with the countries mentioned in the table above.

Credit Review Process

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

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

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

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

Approval Process

The bank analyzes its loan portfolio on a segmented basis and the same approach is used for approval purposes by taking into account the characteristics of each particular targeted group of customers. Given the diversity of the bank s loan book, we utilize different techniques in order to evaluate the credit quality, payment capacity and financial structure of every type of customer. Based on these elements, we apply three kinds of models when analyzing a loan application:

Automated Model: This methodology is used for loan applications made by individuals in the retail banking segment, including lower, middle and higher income customers. This model relies, among other attributes, on: (i) individual credit profiles, (ii) indebtedness limits or financial burden, and (iii) the characteristics of the target market.

The customer s credit profile is determined by using statistical credit scoring models, which differ depending on the segment in which the customer is allocated. The predictive accuracy of our statistical models is crucial for successfully determining the potential risk or loss associated with a loan portfolio under different economic conditions. This requires the bank to constantly review the quality and performance of these scoring models under current market conditions and modifying them when necessary.

Indebtedness limits or financial burden is intended to establish the maximum exposure that the bank is willing to accept for each customer, considering the current amount of debt held by the customer. The thresholds are defined in light of the customer s risk profile, the segment and the income bracket of each customer. In this regard, it is crucial to accurately determine the indebtedness capacity of each type of customer, especially in less positive economic cycles, which are characterized by higher unemployment and lower income.

The definition of the target market is also a key element to guiding commercial efforts and executing the business strategy. The most efficient product offering allows the bank to optimize the risk-return relationship.

Case-by-Case Model: This model is used for customers served by our wholesale banking segment. This model requires an individual assessment, based on the risk, tenor and amount of the transaction, all of which is supplemented by an analysis of the customer s financial condition, the industry s complexity and the outlook for the business, among other variables. This process is also supported by a rating model that is based on objective variables and determines the proper credit terms.

In addition, we have devoted efforts to develop and promote world-class procedures while forming a specialized team with considerable experience in loan approval for the diverse segments and industries we serve. The entire loan approval process is jointly carried out by the risk and commercial areas, through different service models, in order to make the process more effective and efficient while improving the quality of evaluation and optimizing response times. Also, we have specialized areas in some segments that require expert knowledge, attention, and particular advice, such as real estate, construction, agriculture, mining and financial services. We have designed specialized tools to serve these diverse industries and assess their risks.

Although the bank has dedicated monitoring teams within the loan approval areas, monitoring efforts are also carried out collectively by the credit risk and commercial areas, which track operations from application to collection, in order to avoid unexpected risks.

Also, we have set approval attributions that are limited by the total customer credit risk. We define total customer credit risk as the sum of the customer s loans and other financial obligations in which the customer is the indebted party, the loans and other financial obligations from a third party that are guaranteed by the customer, the customer s contingent loans and any of the customer s credit facilities. Also, if the customer is part of an economic group, then the total customer credit risk will also include the total amount of the items described above corresponding to all the parties that make up the economic group.

Table of Contents

Transactions in which the total customer credit risk is more than Ch$18,470 million require approval from a credit committee, composed of three members of the board of directors and our Chief Executive Officer. Transactions in which the total customer credit risk is equal to or less than Ch$18,470 million may be approved by other risk officers, depending on the amount involved, as follows:

Approved by	Limit in Ch$
Credit committee, including members of the board of directors	up to legal limits
Chief executive officer, chairman and senior credit risk officer	up to Ch$18,470 million
Chief executive officer, chairman or senior credit risk officer (any two of the three)	up to Ch$12,314 million
Chief executive officer and executive credit risk officers	up to Ch$9,851 million
Senior credit risk officers and executive vice president of corporate banking	up to Ch$9,851 million
Executive credit risk officers and Executive vice president of corporate banking	up to Ch$8,619 million
Other credit risk officers	up to Ch$2,463 million
Executive vice president of corporate banking	up to Ch$1,970 million
Other department heads	up to Ch$1,231 million
Other officers	up to Ch$493 million

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

Control and Follow-up

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

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

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

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

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

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

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

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

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

87

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 December 31, 2010(1)				
Bank s Credit Rating:	Commercial Loans	Residential Mortgage Loans	Consumer Loans	Total Loans	Percentage Loans of Classified
	(in millions of Ch$, except percentages)				
A1	Ch$ 28,728	Ch$	Ch$	Ch$ 28,728	0.35%
A2	2,346,028			2,346,028	28.19
A3	2,098,218			2,098,218	25.21
B	3,380,009			3,380,009	40.61
Impaired Portfolio	469,971			469,971	5.64
Total individual classified loans	Ch$ 8,322,954	Ch$	Ch$	Ch$ 8,322,954	100.00%
Group non-classified loans	838,074	2,856,020	2,045,849	5,739,943	
Group impaired portfolio	129,954	71,758	113,386	315,098	
Total loans	Ch$ 9,290,982	Ch$ 2,927,778	Ch$ 2,159,235	Ch$ 14,377,995	
Percentage Classified	89.58%	%	%	57.89%	

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

Table of Contents

IFRS:	**As of December 31, 2011(1)**				
Bank s Credit Rating:	**Commercial Loans**	**Residential Mortgage Loans**	**Consumer Loans**	**Total Loans**	**Percentage Loans of Classified**
	(in millions of Ch$, except percentages)				
A1	Ch$ 50,449	Ch$	Ch$	Ch$ 50,449	0.52%
A2	2,393,915			2,393,915	24.85
A3	3,173,274			3,173,274	32.94
A4	1,889,504			1,889,504	19.62
A5	1,299,391			1,299,391	13.49
A6	610,606			610,606	6.34
Normal Portfolio	9,417,139			9,417,139	97.76
B1	37,316			37,316	0.39
B2	8,664			8,664	0.09
B3	6,542			6,542	0.07
B4	1,517			1,517	0.02
Substandard Portfolio	54,039			54,039	0.57
C1	19,083			19,083	0.20
C2	11,405			11,405	0.12
C3	35,413			35,413	0.37
C4	15,886			15,886	0.16
C5	55,893			55,893	0.58
C6	23,565			23,565	0.24
Non-complying Portfolio	161,245			161,245	1.67
Total Individual Classified Loans	Ch$ 9,632,423	Ch$	Ch$	Ch$ 9,632,423	100.00%
Normal Portfolio	1,443,208	3,543,520	2,439,495	7,426,223	
Non-complying Portfolio	137,812	63,914	126,125	327,851	
Total Group Classified Loans	**Ch$ 1,581,020**	**Ch$ 3,607,434**	**Ch$ 2,565,620**	**Ch$ 7,754,074**	
Total loans	**Ch$ 11,213,443**	**Ch$ 3,607,434**	**Ch$ 2,565,620**	**Ch$ 17,386,497**	
Percentage Classified	**85.90%**	**%**	**%**	**55.40%**	

(1) On January 1, 2011, the credit ratings for debtors with individual assessment changed, separating the portfolio into Normal (categories A1 A6), substandard (B1 B4) and Non complying (C1-C6), as shown in the above table (see note 42.2(f) of Financial Statements)

Table of Contents

IFRS:	As of December 31, 2012				
	Commercial Loans	Residential Mortgage Loans	Consumer Loans	Total Loans	Percentage Loans of Classified
Bank s Credit Rating:	(in millions of Ch$, except percentages)				
A1	Ch$ 40	Ch$	Ch$	Ch$ 40	%
A2	2,024,110			2,024,110	20.90
A3	2,642,389			2,642,389	27.28
A4	1,998,263			1,998,263	20.63
A5	1,875,478			1,875,478	19.37
A6	791,133			791,133	8.15
Normal Portfolio	9,331,413			9,331,413	96.33
B1	134,201			134,201	1.39
B2	21,709			21,709	0.22
B3	41,155			41,155	0.42
B4	7,306			7,306	0.08
Substandard Portfolio	204,371			204,371	2.11
C1	22,521			22,521	0.23
C2	13,753			13,753	0.14
C3	5,636			5,636	0.06
C4	52,562			52,562	0.54
C5	17,895			17,895	0.18
C6	36,431			36,431	0.41
Non-complying Portfolio	148,798			148,798	1.56
Total Individual Classified Loans	**Ch$ 9,684,582**			**Ch$ 9,684,582**	**100.00%**
Normal Portfolio	1,864,800	4,149,264	2,651,351	8,665,415	
Non-complying Portfolio	185,988	49,403	186,373	421,764	
Total Group Classified Loans	**Ch$ 2,050,788**	**Ch$ 4,198,667**	**Ch$ 2,837,724**	**Ch$ 9,087,179**	
Total loans	**Ch$ 11,735,370**	**Ch$ 4,198,667**	**Ch$ 2,837,724**	**Ch$ 18,771,761**	
Percentage Classified	**82.52%**	**%**	**%**	**51.59%**	

Table of Contents

IFRS:	As of December 31, 2013				
	Commercial Loans	Residential Mortgage Loans	Consumer Loans	Total Loans	Percentage Loans of Classified
Bank s Credit Rating:	(in millions of Ch$, except percentages)				
A1	Ch$ 15,640	Ch$	Ch$	Ch$ 15,640	0.14%
A2	1,926,720			1,926,720	17.74
A3	3,086,438			3,086,438	28.41
A4	2,273,914			2,273,914	20.93
A5	2,347,825			2,347,825	21.61
A6	832,340			832,340	7.66
Normal Portfolio	10,482,877			10,482,877	96.49
B1	123,803			123,803	1.14
B2	17,687			17,687	0.16
B3	12,979			12,979	0.12
B4	69,978			69,978	0.64
Substandard Portfolio	224,447			224,447	2.06
C1	26,250			26,250	0.24
C2	38,634			38,634	0.36
C3	5,586			5,586	0.05
C4	21,551			21,551	0.20
C5	34,115			34,115	0.31
C6	29,188			29,188	0.29
Non-complying Portfolio	155,324			155,324	1.45
Total Individual Classified Loans	**Ch$ 10,862,648**			**Ch$ 10,862,648**	**100.00%**
Normal Portfolio	2,011,162	4,662,977	2,856,365	9,530,504	
Non-complying Portfolio	205,163	69,330	213,125	487,618	
Total Group Classified Loans	**Ch$ 2,216,325**	**Ch$ 4,732,307**	**Ch$ 3,069,490**	**Ch$ 10,018,122**	
Total loans	**Ch$ 13,078,973**	**Ch$ 4,732,307**	**Ch$ 3,069,490**	**Ch$ 20,880,770**	
Percentage Classified	**83.05%**	**%**	**%**	**52.02%**	

Table of Contents

IFRS:	As of December 31, 2014				
	Commercial Loans	Residential Mortgage Loans	Consumer Loans	Total Loans	Percentage Loans of Classified
Bank s Credit Rating:	(in millions of Ch$, except percentages)				
A1	Ch$ 20,405	Ch$	Ch$	Ch$ 20,405	0.19%
A2	2,211,120			2,211,120	20.19
A3	2,389,952			2,389,952	21.82
A4	2,372,714			2,372,714	21.66
A5	2,563,562			2,563,562	23.40
A6	1,018,489			1,018,489	9.30
Normal Portfolio	10,576,242			10,576,242	96.56
B1	73,569			73,569	0.67
B2	20,126			20,126	0.18
B3	10,372			10,372	0.09
B4	72,815			72,815	0.66
Substandard Portfolio	176,882			176,882	1.60
C1	40,844			40,844	0.37
C2	36,257			36,257	0.33
C3	9,028			9,028	0.08
C4	21,697			21,697	0.20
C5	71,134			71,134	0.65
C6	21,710			21,710	0.21
Non-complying Portfolio	200,670			200,670	1.84
Total Individual Classified Loans	**Ch$ 10,953,794**			**Ch$ 10,953,794**	**100.00%**
Normal Portfolio	1,942,685	5,325,029	3,124,586	10,392,300	
Non-complying Portfolio	214,267	93,594	237,378	545,239	
Total Group Classified Loans	**Ch$ 2,156,952**	**Ch$ 5,418,623**	**Ch$ 3,361,964**	**Ch$ 10,937,539**	
Total loans	**Ch$ 13,110,746**	**Ch$ 5,418,623**	**Ch$ 3,361,964**	**Ch$ 21,891,333**	
Percentage Classified	**83.55%**	**%**	**%**	**50.04%**	

Classification of Loan Portfolio

Individual Classified Loans

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

Normal Loans

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

Substandard Loans

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

Non-Complying Loans

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

Table of Contents

Group Classified Loans

The group analysis is used to analyze a large number of loans whose individual amounts are not significant. For this analysis, the Bank uses models based on attributes of the debtors and their loans, and on the behavior of a group of loans.

Classification of Loan Portfolio Based on the Borrower s Payment Performance

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

	Domestic Loans(1) As of December 31,				
	2010	2011	2012	2013	2014
IFRS:			(in millions of Ch$)		
Current	Ch$ 12,680,422	Ch$ 15,574,502	Ch$ 17,538,374	Ch$ 19,717,830	Ch $ 20,510,141
Past due 1-29 days	945,689	1,165,108	531,778	591,866	567,986
Past due 30-89 days	498,612	298,729	357,259	229,117	347,146
Past due 90 days or more	172,075	178,905	181,865	236,730	272,983
Total loans	**Ch$ 14,296,798**	**Ch$ 17,217,244**	**Ch$ 18,609,276**	**Ch$ 20,775,543**	**Ch$ 21,698,256**

	Foreign Loans(1) As of December 31,				
	2010	2011	2012	2013	2014
IFRS:			(in millions of Ch$)		
Current	Ch$ 81,197	Ch$ 169,253	Ch$ 162,485	Ch$ 105,227	Ch$ 193,077
Past due 1-29 days					
Past due 30-89 days					
Past due 90 days or more					
Total loans	**Ch$ 81,197**	**Ch$ 169,253**	**Ch$ 162,485**	**Ch$ 105,227**	**Ch$ 193,077**

	Total Loans(1) As of December 31,				
	2010	2011	2012	2013	2014
IFRS:			(in millions of Ch$)		
Current	Ch$ 12,761,619	Ch$ 15,743,755	Ch$ 17,700,859	Ch$ 19,823,057	Ch$ 20,703,218
Past due 1-29 days	945,689	1,165,108	531,778	591,866	567,986
Past due 30-89 days	498,612	298,729	357,259	229,117	347,146
Past due 90 days or more	172,075	178,905	181,865	236,730	272,983
Total loans	**Ch$ 14,377,995**	**Ch$ 17,386,497**	**Ch$ 18,771,761**	**Ch$ 20,880,770**	**Ch$ 21,891,333**
Past due loans (1-89 days) as a percentage of total loans	11.24%	9.45%	5.70%	5.07%	5.43%
Past due loans (90 days or more) as a percentage of total loans	1.20%	1.03%	0.97%	1.13%	1.25%

(1) Past due loans refer to installments that are overdue and the remaining outstanding balance of such loans (including principal and interest).

93

Table of Contents

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

	As of December 31,				
	2010	2011	2012	2013	2014
IFRS:	(in millions of Ch$)				
Ch$	2,550	2,547	4,605	4,608	4,616
UF	128	128	128	128	142
Total	**2,678**	**2,765**	**4,733**	**4,736**	**4,758**

The amount of interest we would have recorded on these loans for the year ended December 31, 2014 had these loans been earning a market interest rate was Ch$160 million.

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

	As of December 31,				
	2010	2011	2012	2013	2014
IFRS:	(in millions of Ch$)				
Total other restructured loans	**328,370**	**338,725**	**392,906**	**496,601**	**534,899**

During the year ended December 31, 2014, interest recorded in income on these loans amounted to Ch$65,707 million.

Analysis of Substandard and Past-Due Loans

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

	Year Ended December 31,				
	2010	2011	2012	2013	2014
IFRS:	(in millions of Ch$, except percentages)				
Total Loans	Ch$ 14,377,995	Ch$ 17,386,497	Ch$ 18,771,761	Ch$ 20,880,770	Ch$ 21,891,333
Impaired loans	785,069	499,768	621,268	725,899	829,096
Impaired loans as a percentage of total loans	5.46%	2.87%	3.31%	3.48%	3.79%
Total past due loans (90 days or more)					
To the extent secured[1]	23,781	17,388	19,658	22,804	24,811
To the extent unsecured	148,294	161,517	162,207	213,926	248,172
Total past due loans (90 days or more)	172,075	178,905	181,865	236,730	272,983
Total past due loans (90 days or more) as a percentage of total loans	1.20%	1.03%	0.97%	1.13%	1.25%
To the extent secured	0.17	0.10	0.10	0.11	0.11
To the extent unsecured	1.03	0.93	0.87	1.02	1.14
Allowance for loan losses as a percentage of:					
Total loans	2.42	2.09	2.07	2.10	2.24
Past due loans (90 days or more)	202.25	202.76	213.24	185.57	179.70

Unsecured past due loans (90 days or more)	234.69%	224.58%	239.08%	205.35%	197.67%

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

Analysis of Allowances for Loan Losses

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

	As of December 31,				
	2010	2011	2012	2013	2014
IFRS:	(in millions of Ch$, except percentages)				
Allowances for loan losses at beginning of period	Ch$ 312,101	Ch$ 348,027	Ch$ 362,741	Ch$ 387,803	Ch$ 439,298
Charge-offs	(149,093)	(177,960)	(182,733)	(196,535)	(255,342)
Debt Exchange				(12,556)	
Allowances established	185,019	207,189	225,678	262,713	306,602
Allowances released(1)		(14,515)	(17,883)	(2,127)	
Allowances for loan losses at end of period	Ch$ 348,027	Ch$ 362,741	Ch$ 387,803	Ch$ 439,298	Ch$ 490,558
Allowances for loan losses at end of period as a percentage of total loans	**2.42%**	**2.09%**	**2.07%**	**2.10%**	**2.24%**
Ratio of charge-offs to average loans	**1.10%**	**1.12%**	**1.01%**	**0.99%**	**1.18%**
Provisions for loan losses as a percentage of average loans	**1.16%**	**0.92%**	**0.92%**	**1.12%**	**1.21%**

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

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

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

In 2012, the industry experienced at least two forces affecting allowances for loans losses. On the one hand, the positive economic cycle resulted in lower unemployment and increasing real salaries, which positively impacted customers payment capacity. However, in the first half of the year, social and regulatory issues effectively offset the positive economic drivers and caused a moderate deterioration in credit quality, especially associated with consumer loans, with ratios of past-due loans (90 days or more) peaking in the second quarter of 2012. This phenomenon was observed across the industry and led other banks and us to be more conservative in provisioning loans and focus on collections. Although, credit quality conditions and customers payment behavior normalized by the end of the year, the growth in total loans and our higher penetration of the retail banking segment translated into a 6.9% annual increase in allowances for loan losses, from Ch$362,741 million in 2011 to Ch$387,803 million in 2012.

During 2013 the Chilean economy slowed down moderately by recording a 4.1% GDP growth. The lower dynamism in the local economic activity led other banks and us to recognize the risk associated with a potential deterioration in credit quality of both companies and individuals. Also, to a great extent, loan growth contributed to higher provisions for loan losses. Similar to our entire industry, we also increased our allowances for loan losses, from Ch$387,803 million in 2012 to Ch$439,298 million in 2013, which represents a 13.3% increase. As mentioned, this is in line with the annual growth posted by our loan book, as well as other additional topics that translated into higher provisions for loan losses, such as: (i) the effect of a sharp increase in the Ch$/U.S.$ exchange rate on provisions for loan losses indexed to U.S.$, and (ii) specific credit quality deteriorations in the wholesale segment.

Table of Contents

For the year ended December 31, 2014 the local economic slowdown deepened, as reflected by GDP growth of only 1.9% for the year. This slower pace was attributable to both a sharp year-over-year reduction of 6.1% in investment and a slowdown in private consumption (reflected by a slight 2.2% annual increase), according to information released by the Chilean Central Bank. These trends directly impacted banking activity. In fact, the first half of 2014 was characterized by slow growth in commercial loans as a result of a delay in diverse investment projects due to both the uncertainty regarding political and economic reforms and volatility in foreign markets. On the other hand, consumption started to decelerate during the second half of the year because downward economic expectations translated into deteriorated consumer confidence. As a result of this scenario, during 2014 we recorded an increase of 11.7% in allowances for loan losses, from Ch$439,298 million in 2013 to Ch$490,558 million in 2014. This increase was primarily based on: (i) loan growth that was focused on retail banking, whose average loan balances increased by 11.3% during the year, and (ii) a negative exchange rate effect on allowances for loan losses denominated in U.S.$, due to a higher Ch$-devaluation in 2014 (15.3%) as compared to 2013 (9.6%).

For allowances for loan losses associated with impaired loans and with non-impaired loans, see Note 11(c) to our audited consolidated financial statements as of and for the year ended December 31, 2014 appearing elsewhere in this annual report.

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

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

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

			Year ended December 31,		
	2010	**2011**	**2012**	**2013**	**2014**
IFRS:			**(in millions of Ch$)**		
Commercial loans	Ch$ 46,419	Ch$ 82,086	Ch$ 43,164	Ch$ 36,029	Ch$ 67,717
Mortgage loans	2,376	2,923	4,253	3,242	2,978
Consumer loans	100,298	92,951	135,316	157,264	184,647
Total	**Ch$ 149,093**	**Ch$ 177,960**	**Ch$ 182,733**	**Ch$ 196,535**	**Ch$ 255,342**

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

			Year ended December 31,		
	2010	**2011**	**2012**	**2013**	**2014**
IFRS:			**(in millions of Ch$)**		
Commercial loans	Ch$ 11,127	Ch$ 16,014	Ch$ 14,892	Ch$ 13,330	Ch$ 14,272
Mortgage loans	1,387	1,106	1,971	1,927	2,152
Consumer loans	19,609	28,445	24,099	27,698	29,885
Subtotal	32,123	45,565	40,962	42,955	46,309
Recoveries and sales of loans reacquired from the Central Bank	46	90			

Total	**Ch$ 32,169**	**Ch$ 45,655**	**Ch$ 40,962**	**Ch$ 42,955**	**Ch$ 46,309**
Total Recoveries as a percentage of average loans	**0.24%**	**0.29%**	**0.23%**	**0.22%**	**0.21%**

Table of Contents

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

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

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

	Year ended December 31, 2012			
	Commercial Loans	Consumer Loans	Mortgage Loans	Total
IFRS:		(in millions of Ch$)		
Past due loans 90 days to 6 months	Ch$ 34,412	Ch$ 44,093	Ch$ 11,934	Ch$ 90,439
Past due loans 6 months to 12 months	31,497	14	6,017	37,528
Past due loans 12 months to 24 months	35,547	2	6,729	42,278
Past due loans 24 months to 36 months	5,936		3,783	9,719
Past due loans 36 months to 48 months			1,901	1,901
Past due Loans	**Ch$ 107,392**	**Ch$ 44,109**	**Ch$ 30,364**	**Ch$ 181,865**

	Year ended December 31, 2013			
	Commercial Loans	Consumer Loans	Mortgage Loans	Total
IFRS:		(in millions of Ch$)		
Past due loans 90 days to 6 months	Ch$ 54,232	Ch$ 51,510	Ch$ 18,352	Ch$ 124,094
Past due loans 6 months to 12 months	36,520	2	6,786	43,308
Past due loans 12 months to 24 months	47,790	2	6,730	54,522
Past due loans 24 months to 36 months	9,755		2,751	12,506
Past due loans 36 months to 48 months	16		2,284	2,300

Past due Loans	**Ch$ 148,313**	**Ch$ 51,514**	**Ch$ 36,903**	**Ch$ 236,730**

	Year ended December 31, 2014			
	Commercial Loans	**Consumer Loans**	**Mortgage Loans**	**Total**
IFRS:	(in millions of Ch$)			
Past due loans 90 days to 6 months	Ch$ 42,558	Ch$ 61,232	Ch$ 16,641	Ch$ 120,431
Past due loans 6 months to 12 months	52,158	1,704	15,329	69,191
Past due loans 12 months to 24 months	57,075	9	11,320	68,404
Past due loans 24 months to 36 months	8,031	2	4,822	12,855
Past due loans 36 months to 48 months	50		2,052	2,102
Past due Loans	**Ch$ 159,872**	**Ch$ 62,947**	**Ch$ 50,164**	**Ch$ 272,983**

Table of Contents

Allocation of Allowances for Loan Losses

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

	As of December 31, 2010			
IFRS:	Allowance amount	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans(1)
	(in millions of Ch$, except percentages)			
Commercial loans	Ch$ 211,558	2.28%	1.47%	64.66%
Consumer loans	121,195	5.63	0.84	14.98
Residential mortgage loans	15,274	0.52	0.11	20.36
Total allocated allowances	**Ch$ 348,027**	**2.42%**	**2.42%**	**100.00%**

	As of December 31, 2011			
IFRS:	Allowance amount	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans(1)
	(in millions of Ch$, except percentages)			
Commercial loans	Ch$ 208,249	1.86%	1.20%	64.50%
Consumer loans	138,588	5.40	0.80	14.76
Residential mortgage loans	15,904	0.44	0.09	20.74
Total allocated allowances	**Ch$ 362,741**	**2.09%**	**2.09%**	**100.00%**

	As of December 31, 2012			
IFRS:	Allowance amount	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans(1)
	(in millions of Ch$, except percentages)			
Commercial loans	Ch$ 207,676	1.77%	1.11%	62.52%
Consumer loans	164,047	5.78	0.87	15.12
Residential mortgage loans	16,080	0.38	0.09	22.36
Total allocated allowances	**Ch$ 387,803**	**2.07%**	**2.07%**	**100.00%**

IFRS:	Allowance amount	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans[1]
	As of December 31, 2013 (in millions of Ch$, except percentages)			
Commercial loans	Ch$ 241,442	1.85%	1.16%	62.64%
Consumer loans	179,354	5.84	0.86	14.70
Residential mortgage loans	18,502	0.39	0.09	22.66
Total allocated allowances	**Ch$ 439,298**	**2.10%**	**2.10%**	**100.00%**

IFRS:	Allowance amount	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Loans in category as percentage of total loans[1]
	As of December 31, 2014 (in millions of Ch$, except percentages)			
Commercial loans	Ch$ 273,813	2.09%	1.25%	59.89%
Consumer loans	192,724	5.73	0.88	15.36
Residential mortgage loans	24,021	0.44	0.11	24.75
Total allocated allowances	**Ch$ 490,558**	**2.24%**	**2.24%**	**100.00%**

(1) Based on our loan classification.

The following table sets forth our charge-offs for 2010, 2011, 2012, 2013 and 2014 by major economic sector and provides further detail of charge-offs that have already been described in the previous discussion of allowances for loan losses:

	Year Ended December 31,				
	2010	2011	2012	2013	2014
IFRS:			(in millions of Ch$)		
Commercial:					
Agriculture	Ch$ 3,177	Ch$ 5,208	Ch$ 2,986	Ch$ 5,615	Ch$ 7,007
Mining	461	606	812	1,605	3,193
Manufacturing	7,956	3,807	5,143	2,430	5,389
Construction	6,159	3,330	3,161	4,516	10,335
Commerce	12,960	52,057	9,228	8,825	14,536
Transport	3,786	2,132	2,287	3,309	5,545
Financial services	6,140	9,799	5,637	4,774	16,328
Community	5,780	5,147	13,910	4,955	5,384
Subtotal:	Ch$ 46,419	Ch$ 82,086	Ch$ 43,164	Ch$ 36,029	Ch$ 67,717
Consumer loans	100,298	92,951	135,316	157,264	184,647
Mortgage loans	2,376	2,923	4,253	3,242	2,978
Total	**Ch$ 149,093**	**Ch$ 177,960**	**Ch$ 182,733**	**Ch$ 196,535**	**Ch$ 255,342**

Composition of Deposits and Other Commitments

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

	As of December 31,		
	2012	2013	2014
IFRS:		(in millions of Ch$)	
Current accounts	Ch$ 4,495,135	Ch$ 5,018,155	Ch$ 5,786,805
Other demand deposits	975,836	966,177	1,147,568
Savings accounts	179,464	178,012	188,311
Time deposits	9,370,063	10,151,612	9,450,224
Other term balance payables	63,423	73,101	82,711
Total	**Ch$ 15,083,921**	**Ch$ 16,387,057**	**Ch$ 16,655,619**

Maturity of Deposits

The following table sets forth under IFRS information regarding the currency and maturity of our deposits at December 31, 2014, expressed in percentages. UF-denominated deposits are similar to Chilean peso-denominated deposits in all aspects, except that the principal is readjusted periodically based on the value of the UF.

As of December 31, 2014			
Ch$	UF	Foreign Currency	Total

	(in millions of Ch$)			
IFRS:				
Demand deposits	Ch$ 5,929,629	Ch$ 28,083	Ch$ 976,661	Ch$ 6,934,373
Savings accounts		188,311		188,311
Time deposits:				
Maturing within three months	5,164,496	908,486	751,279	6,824,261
Maturing after three but within six months	808,135	347,398	85,646	1,241,179
Maturing after six but within 12 months	857,373	432,970	28,271	1,318,614
Maturing after 12 months	123,304	23,639	1,938	148,881
Total time deposits	**Ch$ 6,953,308**	**Ch$ 1,712,493**	**Ch$ 867,134**	**Ch$ 9,532,935**
Total deposits	**Ch$ 12,882,937**	**Ch$ 1,928,887**	**Ch$ 1,843,795**	**Ch$ 16,655,619**

Table of Contents

	As of December 31, 2014			
	Ch$	UF	Foreign Currency	Total
	(in millions of Ch$)			
IFRS:				
Demand deposits	46.02%	1.45%	52.96%	41.64%
Savings accounts		9.76		1.13
Time deposits:				
Maturing within three months	40.09	47.10	40.75	40.97
Maturing after three but within six months	6.27	18.01	4.65	7.45
Maturing after six but within 12 months	6.66	22.45	1.53	7.92
Maturing after 12 months	0.96	1.23	0.11	0.89
Total time deposits	53.98	88.79	47.04	57.23
Total deposits	**100.00%**	**100.00%**	**100.00%**	**100.00%**

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, 2014.

Deposits in Foreign Countries

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 dates indicated:

	As of December 31,		
IFRS:	**2012**	**2013**	**2014**
	(in millions of Ch$)		
Australia	Ch$ 502	Ch$ 453	Ch$ 438
Brazil	9		
Canada	743	1,464	1,058
China	766	20	88
Denmark	99	173	249
Finland	74	81	10
France	339	102	54
Germany	9,199	12,565	7,309
Italy		22	29
Japan	4,325	1,614	1,764
Mexico	484	1,111	297
Netherlands	1,018	1,200	840
Norway	114	81	139
Peru	29	358	805
Singapore		13,270	15
Sweden		354	351
Switzerland	343		649
United Kingdom	13,229	2,802	6,418
United States	170,275	264,726	258,198
Total	**Ch$ 201,548**	**Ch$ 300,396**	**Ch$ 278,711**

Table of Contents

Short-Term Borrowings

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

	For the year ended December 31,					
	2012		2013		2014	
	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate	Year-End Balance	Weighted Average Nominal Interest Rate
IFRS:	(in millions of Ch$, except interest rate data)					
Payables from repurchase agreements and security lending	226,396	6.62%	256,766	5.12%	249,482	3.84%
Borrowings from domestic financial institutions						
Foreign borrowings	1,108,662	1.90	989,455	1.25	1,098,707	0.60
Other obligations	106,538		160,612		141,729	
Total short-term borrowings	**1,441,596**	**2.50%**	**1,406,833**	**1.81%**	**1,489,918**	**1.09%**

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

	For the year ended December 31,					
	2012		2013		2014	
	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate	Average Balance	Weighted Average Nominal Interest Rate
IFRS:	(in millions of Ch$, except interest rate data)					
Payables from repurchase agreements and security lending	286,944	5.22%	289,107	4.55%	262,301	.365%
Central Bank borrowings	36		13		9	
Borrowings from domestic financial institutions	34,702	3.52	35,928	3.94	13,059	4.01
Sub-total	**321,682**	**5.04**	**325,048**	**4.48**	**275,369**	**3.67**
Foreign borrowings	1,388,253	1.52	925,685	1.34	735,017	0.90
Total short-term borrowings	**1,709,935**	**2.18%**	**1,250,733**	**2.15%**	**1,010,386**	**1.66%**

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

	Maximum 2012 month-end balance	Maximum 2013 month-end balance	Maximum 2014 month-end balance
IFRS:		(in millions of Ch$)	
Investments sold under agreements to repurchase	310,616	330,407	372,333
Central Bank borrowings	60	17	10

Borrowings from domestic financial institutions	5,000	210,058	59,507
Foreign borrowings	1,735,573	1,180,252	1,283,611

Table of Contents

Minimum Capital Requirements

Pursuant to the general Banking Law, local banks must comply with minimum capital requirements in relation to both total assets and risk-weighted assets. Basic Capital should be at least equal to 3.0% of their total assets, while banks Total Regulatory Capital, should be at least 8.0% of their risk weighted assets. Nevertheless, based on Banco de Chile s systemic relevance the SBIF requires us to maintain a ratio of Regulatory Capital to Credit Risk-Weighted Assets above 10.0%. For more information see Item 3. Key Information Presentation of Financial Information and Item 4. Information on the Company Regulation and Supervision Capital Adequacy Requirements .

The following table sets forth our minimum capital requirements (and availability) with respect to total assets as set by the SBIF:

	As of December 31,		
	2012	2013	2014
CHILEAN GAAP:		(in millions of Ch$)	
Banco de Chile s basic capital	2,007,057	2,284,314	2,535,153
Basic capital required (with respect to total assets)	(821,418)	(905,644)	(963,418)
Excess over minimum basic capital required	1,185,639	1,378,670	1,571,735

Similarly, the following table sets forth our minimum capital requirements (and availability) with respect to risk-weighted assets, as set by the SBIF:

	As of December 31,		
	2012	2013	2014
CHILEAN GAAP:		(in millions of Ch$)	
Banco de Chile s Total Regulatory Capital	2,738,829	2,999,061	3,249,903
Total Regulatory Capital required (with respect to risk-weighted assets)	(2,070,952)	(2,298,110)	(2,439,925)
Excess over minimum Total Regulatory Capital required	667,877	700,951	809,978

Item 4B Unresolved Staff Comments

None.

Table of Contents

Item 5 Operating and Financial Review and Prospects

OPERATING RESULTS

Introduction

The following discussion should be read in conjunction with, and is entirely qualified by reference to, our audited consolidated financial statements as of and for the year ended December 31, 2014 appearing elsewhere in this annual report and Item 4. Information on the Company Selected Statistical Information. Certain amounts (including percentage amounts) that appear in this annual report may not total due to rounding.

Unless otherwise indicated, the financial information included in this annual report with respect to 2010, 2011, 2012, 2013 and 2014 has been derived from financial statements that have been prepared in accordance with IFRS as issued by the IASB. See Note 2(a) to our audited consolidated financial statements as of and for the year ended December 31, 2014 appearing elsewhere in this annual report. IFRS differs in certain significant respects from Chilean GAAP. As a result, our financial information presented under IFRS is not directly comparable to any of our financial information presented under Chilean GAAP. Accordingly, readers should avoid such comparison.

Overview

We are a leading bank within the Chilean financial system, providing a broad range of financial products and services to individual and corporate customers who are primarily located in Chile. Accordingly, our financial condition, results of operations and our ability to achieve our strategic business goals could be adversely affected by changes in Chile s economic conditions and the resulting effects on macroeconomic indicators (such as interest rates, inflation and GDP growth, among others), modifications of non-economic policies implemented by the Chilean government that can affect private sector activities, or other political and economic developments in Chile, as well as regulatory changes or administrative practices of Chilean authorities 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.

According to information published by the SBIF, as of December 31, 2014, excluding operations of subsidiaries abroad, we were the second largest bank in Chile in terms of total loans with a market share of 18.1%, the largest provider of commercial loans with a market share of 18.0%, the largest bank in Chile in terms of average balances of current accounts and demand deposits with a 22.5% market share, the second largest provider of consumer loans in Chile with a market share of 20.9% and the second largest privately owned bank in Chile in terms of residential mortgage loans with a market share of 17.1%. Also according to the SBIF, as of December 31, 2014, we were the largest bank in Chile in terms of net income with a market share of 23.8% and the largest bank in Chile in terms of current account balances held by individuals with a market share of 28.9%. According to the Chilean Association of Mutual Funds, as of December 31, 2014, we were the largest provider of mutual funds management services in Chile with a market share of 22.5%.

As for the economy, after a period of accelerated growth between 1985 and 1997, when Chile s gross domestic product grew at an average annual rate of 7.0%, Chile s economic growth slowed to an average rate of 4.7% between 2000 and 2008. Since 2008 the Chilean economy has faced difficult and volatile circumstances, ranging from a global economic slowdown caused by the subprime mortgage crisis in United States to the worst earthquake reported in over 50 years in Chile. However, the country was able to successfully cope with this challenging environment and maintained sustained growth by achieving an average GDP expansion rate of 5.7% between 2010 and 2012. The GDP growth was supported by Chile s stable financial condition that, in turn, relied on an independently managed Central Bank, a floating exchange rate regime, a state s policy intended to accumulate international reserves and maintain low external debt levels, a well-diversified international trade and a fiscal policy internationally recognized for its responsibility and long term vision.

During 2013, the Chilean economy followed the trend observed among most emerging market countries. Local economic activity displayed some signs of slowdown by recording a 4.1% GDP expansion. This trend continued in 2014, resulting in a GDP growth rate of only 1.9% as of December 31, 2014. As a consequence, the Chilean economy underperformed the average GDP growth recorded by Latin American countries in 2014.

Table of Contents

The economic slowdown that Chile experienced in 2014 was largely explained by a large reduction of investment activity across the market caused by both structural and temporary factors. On the one hand, the Chilean economy is facing the end of a profitable mining cycle, the last stages of a reconstruction process from the earthquake that occurred in 2010 and a sharp increase in energy prices caused by an expansive drought and delayed projects across the energy sector. On the other hand, in 2014 temporary factors affected the overall state of the economy, such as the decline in copper prices (Chile s main export product). These temporary factors were accompanied by a weak business environment that resulted from the uncertainty produced by the diverse social and economic reforms pledged by the government. These reforms have included overhauls to the tax and educational systems in Chile. Similarly, by the end of the year the government sent to the congress a labor reform bill for discussion. All of these reforms, along with the announcement of a constitutional reform, affected business sentiment and, accordingly, investments. On the whole, investment activity showed a significant reduction in 2014 by posting a 6.1% contraction, which negatively compared to the increases of 2.1% and 11.6% posted in 2013 and 2012, respectively.

Conversely, private consumption continued to be the main driver of economic growth despite signs of a slowdown by the end of 2013. This slowdown persisted throughout 2014. On average, consumption represents more than 60% of Chilean GDP and, therefore, it has become the main engine for GDP expansion over the last several years. In this regard, positive figures in the labor market have been an important factor for sustaining private consumption. In fact, the unemployment rate has remained at historically low levels, recording averages of 5.9% in 2013 and 6.4% in 2014. Additionally, real wages have continued to steadily grow by expanding 2.4% in 2014, the same increase seen in 2013. On the other hand, credit conditions have gradually tightened for individuals and companies, reflecting the banking industry s sentiment about the potential risks associated with the impact of a slowdown on delinquency. Similarly, demand for credits has decreased, especially from individuals, which denotes a gradual decline in consumer expectations regarding the economic outlook. Altogether, private consumption posted real growth of 2.2% in 2014, which was below the increases of 5.9% and 6.1% posted in 2013 and 2012, respectively.

In regards to inflation, local prices failed to link up with trends in aggregate demand. Hence, in spite of the slowdown in private consumption and economic activity as a whole, the local CPI index recorded a 4.6% annual increase in 2014, which is above the 3.0% annual rise observed last year. This level of inflation was caused mainly by a sharp Chilean peso depreciation of 15.2% against the U.S. dollar in 2014, which is aligned with a global trend followed by diverse currencies and the easing monetary policy conducted by the Chilean Central Bank. This resulted in higher prices of tradable goods for which Chile is a net importer. Also, the recently passed tax reform affected the price of diverse products, such as sugared and alcoholic beverages. In light of the trends followed by the economy, the annual change in inflation was above market expectations and the Central Bank s estimates. Nevertheless, in the view of the Chilean Central Bank, prices should converge in the long run to meet the targets set for the Chilean economy in 2015 and in the upcoming years.

As mentioned above, given controlled mid-term expectations on inflation and the slowdown evidenced in the local economy during 2014, the Central Bank maintained an easing monetary policy by successively cutting the marginal standing facility rate, totaling a 150 basis point reduction within the year. As a result of this, the monetary policy rate declined from 4.5% in December 2013 to 3.0% in December 2014. These actions were undertaken in order to promote higher consumption and investment, as GDP growth expectations were subsequently revised downward by the Central Bank and market analysts throughout the year. As of April 17, 2015 the marginal standing facility rate remained at 3.0%.

Regarding the stock market, during 2014 the Santiago Stock Exchange IPSA Index (IPSA index), composed of the 40 most traded Chilean stocks, recovered slightly from the poor performance observed in 2013. As a result, the IPSA index was at 3,850.96 points as of December 31, 2014, which represented a tempered 4.1% advance as compared to the 3,699.19 points recorded as of December 31, 2013. This moderate rebound had to do with both the easing policy undertaken by the Central Bank during 2014 and signs of recovery seen among developed economies, particularly the United States. By early 2015, the IPSA index reflected better expectations in terms of outlook for the local economy. As a result, during February 2015 the IPSA index surpassed the barrier of 4,000 points. According to data published by the Santiago Stock Exchange, as of April 17, 2015 the IPSA index was at 4,018.06 points, which represented a 4.3% year to date increase.

Table of Contents

Inflation

In the past, Chile experienced high levels of inflation that affected the financial condition and results of operations of most industries. Nevertheless, since the 1990s, inflation has been maintained under control through responsible monetary policy carried out by an independent Central Bank. Over the last five years, inflation has been conditioned on local economic dynamics, as well as external factors. In fact, due to the slowdown in the global and local economy, during 2009 inflation turned negative and closed the year with a deflation of 1.4%. Conversely, throughout 2010, inflation returned to more normal levels and was within the long term range of 2.0% to 4.0% per year targeted by the Central Bank, ending the year at 3.0%. After that, stimulative economic activity and high international prices for oil and food caused a CPI annual increase of 4.4% in 2011. During 2012, inflation was 1.5%, which was mainly explained by a decrease in international oil prices that translated into lower local prices for transportation and utilities, partly offset by higher food prices. In 2013, inflation was once again within the long-run range targeted by the Central Bank by posting an annual increase of 3.0%. This figure was influenced by higher food, transportation and energy prices prompted by a sharp increase in the Ch$/U.S.$ exchange rate. Unlike in 2013, inflation showed a sharp increase in 2014, as reflected by a CPI annual variation of 4.6%. This figure was the caused by a sharp Chilean peso devaluation (against U.S.$) that translated into a higher cost of imported tradable goods, affecting most economic sectors. Also, the government s tax reform prompted a cost increase in specific products such as beverages and cigarettes.

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

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

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

UF Denominated Assets and Liabilities. The UF is revalued in monthly cycles. On each day in the period beginning the tenth day of the current month through the ninth day of the next month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect each day a pro rata amount of the prior calendar month s change in the CPI as published by the Chilean National Statistics Institute. One UF was equal to Ch$23,309.56 as of December 31, 2013 and Ch$24,627.10 as of December 31, 2014. The effect of any changes in the nominal peso value of our UF denominated assets and liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest revenue and expense. Our net interest income will be positively affected by inflation (and negatively affected by deflation) to the extent that our average UF denominated assets exceed our average UF denominated liabilities, while our net interest income will be negatively affected by inflation (and positively affected by deflation) when average UF denominated liabilities exceed our average UF denominated assets. Our average UF denominated assets exceeded our average UF denominated liabilities by Ch$4,625,444 million (U.S.$8,798.30 million) as of December 31, 2013 and Ch$5,317,339 million (U.S.$8,773.18 million) as of December 31, 2014. These figures exclude 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 62% during the year ended December 31, 2013 and 67% during the year ended December 31, 2014. Since a large part of such deposits are not indexed to inflation, even a slight decline in the rate of inflation may adversely affect our net interest margin on assets funded with such deposits and even a slight increase in the rate of inflation may increase the net interest margin on such assets. See Item 4. Information on the Company Selected Statistical Information Interest Earning Assets and Net Interest Margin.

Interest Rates

Interest rates earned and paid on our assets and liabilities reflect in part, inflation and expectations regarding future inflation, shifts in short-term interest rates related to the Central Bank s monetary policies and movements in long-term real rates. The Central Bank manages short-term interest rates in order to achieve its long-term inflation target and provide the economy with financial stability. As a consequence of strong recovery signs for economic activity and the more normalized inflationary environment observed after the financial turmoil of 2008, the Central Bank began to withdraw the monetary stimulus in June 2010 by increasing the monetary policy interest rate to 1.00% from the 0.5% maintained during the first half of that year. Since June 2010, the Central Bank repeatedly raised the marginal standing facility rate, ending 2011 at 5.25%, above the level of 3.25% recorded in December 2010. Nevertheless, as a consequence of the tempered global slowdown during the last quarter of 2011 and the uncertainty regarding the fiscal condition of some developed countries, particularly in the Euro Zone, the Central Bank decided to lower the reference interest rate by 0.25% on January 12, 2012.

After that, the Central Bank maintained the marginal standing facility rate at 5.0% during 22 months, until October 2013. This neutral bias was supported by local economic growth that resulted in a GDP increase over 5.0% per year, which prompted a virtuous cycle including increasing real wages, low unemployment and growing private consumption. These trends were also accompanied by low inflation. Nevertheless, in light of the signs of slowdown evidenced by the Chilean economy, the Central Bank commenced an easing monetary policy by the end of 2013, which involved successive cuts to the marginal standing facility rate. For this reason, the monetary policy interest rate at the end of 2013 was 4.5% and at the end of 2014 was 3.0%. As of April 17, 2015 the monetary policy interest rate remained at 3.0%.

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

According to information published by the Central Bank, the average annual short term nominal interest rate, based on the rate paid by Chilean financial institutions for 90 to 360 day Chilean peso denominated deposits, was 5.90% in 2012, 5.20% in 2013 and 3.91% in 2014. The average annual long term nominal interest rate, based on the interest rate of the Central Bank s five year Chilean peso denominated bonds in the secondary market, was 5.34% in 2012, 5.20% in 2013 and 4.43% in 2014.

Foreign Currency Exchange Rates

A portion of our assets and liabilities are denominated in foreign currencies, principally U.S. dollars. In the past, we have 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. However, we generally offset this gap by taking hedging derivative positions. Because foreign currency denominated assets and liabilities, as well as interest earned or paid on such assets and liabilities and gains (losses) realized upon the sale of such assets, are translated into pesos in preparing our audited consolidated financial statements, our reported income is affected by changes in the value of the peso with respect to foreign currencies, primarily the U.S. dollar. Adjustments to U.S. dollar-indexed assets are reflected as adjustments in net interest earnings and offset results in our foreign exchange position. See Item 3. Key Information Exchange Rates and Item 3. Key Information Risk Factors Currency fluctuations could adversely affect the value of our ADSs and any distributions on the ADSs.

Table of Contents

Critical Accounting Policies

We prepare our audited consolidated financial statements in accordance with IFRS as issued by the IASB. The notes to our audited consolidated financial statements as of and for the year ended December 31, 2014, which are included in this annual report, contain a summary of our significant accounting policies.

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

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

Allowances for Loan Losses

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

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

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

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

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

The collective impairment allowance has two components.

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

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

For a further description of our policy regarding allowances for loan losses, see note 2(h) to our audited consolidated financial statements as of and for the year ended December 31, 2014 appearing elsewhere in this annual report.

Impairment of Other Financial Instruments

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

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

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

Fair Value Estimates for Financial Assets and Liabilities

International Financial Reporting Standard (IFRS) 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a fair value hierarchy . The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The Bank uses valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants and the measurement date under current market conditions. Three widely used valuation techniques are:

Market approach uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business).

Cost approach reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost).

Income approach converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

Table of Contents

In some cases, a single valuation technique will be appropriate, whereas in others multiple valuation techniques will be appropriate. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all of the following:

- the particular asset or liability that is the subject of the measurement (consistently with its unit of account).
- the principal (or most advantageous) market for the asset or liability.
- the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized. For a further description of our internal fair value classification, see note 40 to our audited consolidated financial statements as of and for the year ended December 31, 2014 appearing elsewhere in this annual report.

Revenue Recognition

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

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

Deferred Tax Assets

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

Legal and Regulatory Contingencies and Tax Risks

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

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

109

Table of Contents

Amendments to Financial Reporting Standards in 2014

IAS 32 Offsetting Financial Assets and Financial Liabilities This amendment clarifies the meaning of *currently has a legally enforceable right to set-off* and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. The Bank has disclosed the impact of master netting agreements. None of these netting arrangements qualify for netting under the requirements of IAS 32; therefore, financial instruments subject to netting arrangements are presented on a gross basis in the balance sheet.

IFRS 10, IFRS 12 and IAS 27 Investment Entities These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Bank, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

IAS 36 Impairment of Assets Recoverable Amount Disclosures for Non-Financial Assets This Amendment reduces the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarifies the disclosures required and introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. These amendments have no impact on the Bank.

IAS 19 Defined Benefit Plans: Employee Contributions IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments have no impact on the Bank, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

IAS 39 Financial Instruments Recognition and Measurement The amendments to IAS 39 relate to continuing hedge accounting after novation. This amendment provides an exception to the requirement to discontinue hedge accounting when over-the-counter (OTC) derivatives designated for hedging are, directly or indirectly, novated to a central counterparty (CCP) as a consequence of laws or regulations, or the introduction of laws or regulations. Hedges will not be interrupted for this novation, so there is no impact in financial statements.

Results of Operations for the Years Ended December 31, 2012, 2013 and 2014

The consolidated financial information presented in this section for the years ended December 31, 2012, 2013 and 2014 has been audited and prepared in accordance with IFRS. In addition, to the extent that it is available and because we believe it is useful in analyzing our results, we have included information classified by the business segments that we use for internal reporting purposes. As mentioned earlier, information about our business segments is reported under our internal reporting policies, which differ in significant respects from IFRS.

Net Income

The following table sets forth the principal components of our net income, as detailed in our audited consolidated financial statements for the years ended December 31, 2012, 2013 and 2014:

	For the Year Ended December 31,			% Increase (Decrease)	
IFRS:	**2012**	**2013**	**2014**	**2012/2013**	**2013/2014**
	(in millions of Ch$, except percentages)			%	
Net interest income	964,137	1,061,571	1,256,816	10.1%	18.4%
Net fees and commissions income	287,272	287,093	272,188	(0.1)	(5.2)
Other income (loss), net	72,222	130,013	132,640	80.0	2.0
Provisions for loan losses	(166,420)	(221,653)	(261,566)	33.2	18.0
Operating expenses	(612,934)	(619,530)	(727,360)	1.1	17.4
Income attributable to associates	(468)	1,780	2,486		39.7
Income before income taxes	543,809	639,274	675,204	17.6	5.6
Income taxes	(63,928)	(89,085)	(79,685)	39.4	(10.6)

Net income	479,881	550,189	595,519	14.7%	8.2%

2013 and 2014. For the year ended December 31, 2014 our net income was Ch$595,519 million. This represented an annual increase of 8.2% over the Ch$550,189 million recorded in 2013. The annual variance in our net income was primarily attributable to:

Significantly higher contribution of our net asset exposure to UF, which is an inflation-indexed currency. During the year ended December 31, 2014 inflation (measured as UF variation) was 5.65%, as compared to the 2.05% recorded in 2013. The 3.6% annual increase in UF variation translated into higher revenues from our net asset exposure to the UF (inflation). Also, this effect was amplified by lower nominal interest rates associated with Chilean peso-denominated liabilities funding this asset position.

Downward shifts in interest rates. Given the economic backdrop observed locally in 2014, the Chilean Central Bank undertook successive cuts to the marginal standing facility rate. This rate ranged from 4.5% at the end of 2013 to 3.0% as of December 2014. The change in monetary policy caused similar shifts in nominal short-term interest rates, positively impacting our results due to both a repricing effect as liabilities reprice faster than assets and higher revenues from term gapping, based on the yield curve steepening.

Higher income from loans as a result of both loan book expansion and non-recurring effects. On the one hand, our loan portfolio recorded an 8.6% annual increase in average balances which was prompted by an annual increase of 11.3% in retail banking loans and an annual expansion of 4.2% in wholesale banking loans (all based on average balances). The increase in retail banking balances was aligned with our strategic priority of increasingly penetrating that segment, while the moderate growth posted in the wholesale banking segment had to do with both tightened market conditions and aggressive competition within the corporate segment. On the other hand, we benefited from the early settlement of a corporate loan, which translated into non-recurring net interest income.

A positive non-recurring effect associated with our asset position in deferred taxes. As a result of the tax reform approved in Chile during 2014, we recognized a positive effect related to the increase in the statutory corporate tax rate for the coming years.

The previously mentioned factors enabled us to effectively cope with: (i) a 5.2% decrease in net fees and commissions income, primarily explained by regulations affecting the insurance brokerage business, lower fee income from credit cards as a result of commercial decisions we made in order to promote this means of payment and lower stock brokerage fees, which is in line with the moderate growth observed in the local equity market; (ii) an annual increase of 18.0% in provisions for loan losses, explained by both higher growth in the retail banking segment and a negative exchange rate effect (offset by higher revenues from an asset position in U.S.$ that hedges our liability exposure to U.S.$-denominated provisions for loan losses); (iii) a 17.4% annual increase in operating expenses, primarily associated with four-year collective bargaining agreements settled in 2014 with most of our unions; and (iv) lower contribution from our demand deposits, given the decrease in nominal short term interest rates.

2012 and 2013. During 2013 our net income was Ch$550,189 million, increasing by 14.7% as compared to the Ch$479,881 million recorded in 2012. The annual increase in net income was primarily the result of:

Sustained loan growth and stable lending spreads in all of our targeted segments. During 2013 we selectively expanded our loan book by prioritizing those segments with a favorable risk-return relationship. On the whole, our average balances of total loans increased by 9.9% in 2013. This annual increase was primarily associated with a 12.2% annual increase in average loans managed by our Retail Banking segment while average loans handled by our Wholesale Banking segment recorded a 5.5% annual increase in 2013. These expansions were aligned with our strategic priorities but also with market conditions, such as strong competition within the corporate segment. Together with these trends in loans and given our selective growth, we were also able to slightly increase our average lending spreads.

Higher contribution from non-interest bearing liabilities as a result of increasing balances and despite recent cuts in the Central Bank s marginal standing facility rate, which affected market rates as well. As for the former, our average balances of current accounts and demand deposits increased by 10.7% in 2013 as compared to 2012. This annual growth in non-interest bearing liabilities increased the profitability of interest earning assets and also more than offset the interest rate reductions set by the Central Bank in the marginal standing facility rate (a decrease of 50 bp in 2013).

Higher revenues from our UF net asset position. Although inflation (measured as UF variation) was lower in 2013 than 2012, we benefited from our UF net asset position through increasing our exposure to inflation, and, to a lesser extent, due to a positive repricing effect on interest bearing peso-denominated liabilities as a result of two consecutive cuts in monetary policy interest rates carried out by the Central Bank by the end of 2013.

Higher revenues from the management of our Treasury. Given favorable shifts in market factors, especially by the end of 2013, our Treasury was able to profit from term gapping, liabilities repricing and the management of our investment portfolio.

The factors mentioned above were partly offset by a 33.2% annual increase in provisions for loan losses that was prompted by: (i) the previously mentioned loan growth, (ii) the devaluation of the Chilean peso that negatively impacted our U.S.$.-denominated provisions for loan losses (although this effect was mostly offset by a hedging asset position whose revenues are recognized under other income (loss) net), and (iii) credit deterioration linked to specific wholesale customers and to a lesser extent the SME business. The increase in provisions for loan losses was accompanied by an annual increase of 39.4% in income taxes, owing to both the 17.6% annual increase in income before income tax in 2013 as compared to 2012 and a low basis for comparison, since in 2012 we recognized non-recurring tax benefits associated with our deferred taxes as a result of an increase in the statutory corporate tax rate.

Net Interest Income

The tables included under the headings Interest Revenue and Interest Expense set forth information regarding our consolidated interest revenue and expenses, average interest earning assets and average interest bearing liabilities for the years ended December 31, 2012, 2013 and 2014. This information is derived from tables included elsewhere in this annual report under Item 4. Information on the Company Selected Statistical Information and is qualified in its entirety by reference to such information.

	For the Year Ended December 31,			% Increase (Decrease)	
IFRS:	**2012**	**2013**	**2014**	**2012/2013**	**2013/2014**
	(in millions of Ch$, except percentages)			%	
Interest revenue	Ch$ 1,672,766	Ch$ 1,765,942	Ch$ 2,045,604	Ch$ 5.6%	Ch$ 15.8%
Interest expense	(708,629)	(704,371)	(788,788)	(0.6)	12.0
Net interest income	Ch$ 964,137	Ch$ 1,061,571	Ch$ 1,256,816	10.1%	18.4%
Net interest margin(1)(2)	4.68%	4.67%	5.12%		

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

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

2013 and 2014. Our net interest income was Ch$1,256,816 million in 2014, which was 18.4% above the Ch$1,061,571 million recorded in 2013. This annual increase was mainly related to favorable changes in market factors, such as inflation and interest rates, as well as an expansion in loan balances. The primary drivers explaining the increase in net interest income were as follows:

Higher net income attributable to our UF net asset position. Inflation (measured as UF variation) was higher than expected, reaching 5.65% in 2014. This annual increase was well above the 2.05% recorded in 2013. However, in addition to higher inflation, our UF net asset position benefited from lower short term nominal interest rates on the Ch$ denominated liabilities that fund this position. On the whole, the contribution of our UF net asset exposure increased by approximately Ch$156,000 million in 2014 as compared to 2013.

Higher income from loans of approximately Ch$37,900 million. This was the result of an 8.7% annual increase in our loan book (based on average balances), prompted by an increase of 11.3% in retail banking average loans and to a lesser extent by an expansion of 4.2% in wholesale banking average loans. In spite of the moderate growth in wholesale banking average loans, we benefited from the non-recurring effect associated with the prepayment of a commercial loan producing additional net interest income of approximately Ch$9,400 million. It is important to note that our loan expansion in retail banking was conducted selectively by targeting higher income individual customers with both consumer and residential mortgage loans. Thus, whereas our Individuals and SM Banking Unit recorded a 12.2% annual increase in average loans by catering to higher-income individuals and SMEs, our Consumer Finance Division only managed a 1.4% annual increase in average loans. On the other hand, the growth in wholesale banking was associated with higher expansion in our Large Companies and Real Estate Banking Unit (Middle Market), with average loans increasing 8.1% annually. Conversely, our Corporate Division posted an annual decrease of 0.7% in average loan balances. The trends followed by our loan book reflected the Chilean economic backdrop. The low growth rate managed by the wholesale banking segment had to do with postponed macro investment projects and a lack of confidence in the economic outlook by decision makers. The economic environment also translated into a decline in loan growth in the retail banking segment by the end of 2014.

Higher net interest revenues of approximately Ch$20,748 million as a result of favorable shifts in both short- and long-term interest rates. In fact, the downward trends in short-term interest rates produced a positive repricing effect (since liabilities reprice faster than assets). Also, we benefited from a steepening in the yield curve, which caused higher revenues from term gapping.

The 18.4% annual increase in net interest income prompted a significant increase in our net interest margin, from 4.67% in 2013 to 5.12% in 2014. This was mostly the result of the UF increase, as well as a more convenient backdrop for funding and term gapping, given that interest assets grew by 8.1% on an annual basis.

2012 and 2013. Our net interest income was Ch$1,061,571 million in 2013, which represented a 10.1% annual increase from the Ch$964,137 million recorded a year earlier. This annual increase was principally the result of:

The previously mentioned expansion in our loan book. Our average balances of total loans increased by 9.9% in 2013 as compared to 2012. This expansion was focused on those segments where we still have room to grow and more importantly in which the risk-return equation is favorable. Accordingly, our loan growth was largely fostered by a 12.2% growth in average loans of our Retail Banking segment, especially linked to a 13.1% annual expansion in middle and upper income personal banking, in conjunction with a 12.6% annual increase in average loans to SMEs. In the Wholesale Banking segment, the overall growth of 5.5% in average loans was principally prompted by a 14.2% increase in average loans associated with our Large Companies and Real Estate Division (Middle Market). These drivers enabled us to more than offset an annual slight decrease in loans granted to Corporations and a slowdown in average loans to our lower income individual segment. Altogether, we increased our revenues from loans by approximately Ch$59,700 million in 2013 as compared to 2012.

Higher contribution from our non-interest bearing liabilities. Based on a 10.7% annual increase in average balances of current accounts and demand deposits, we were able to completely offset the effect of lower nominal interest rates following two consecutive cuts of 25 basis points in the marginal standing facility rate by the end of 2013. Accordingly, greater balances of these liabilities resulted in higher profitability for our balance sheet, which translated into higher benefits by approximately Ch$23,400 million in 2013 as compared to 2012.

A more favorable scenario for our UF net asset position. Despite the UF increase of 2.05% in 2013 as compared to an increase of 2.45% in 2012, we benefited from an enlarged exposure to UF and more convenient funding for the portion of these assets funded with Ch$-denominated liabilities given the decrease in nominal interest rates towards the end of 2013. Higher revenues from our UF net asset position amounted to approximately Ch$17,600 million in 2013 as compared to 2012.

As mentioned, an important part of the increase in net interest income was fostered by more accessible funding based on: (i) our leading market position in non-interest bearing liabilities, (ii) our high credit ratings that translated into low risk premiums for our international debt placements and (iii) a positive repricing effect given the decrease in short-term interest rates towards the end of 2013. This allowed us to more than offset lower revenues from our time deposits and saving accounts by approximately Ch$1,100 million and a yield curve that remained almost flat in 2013, despite the steepening observed towards the end of 2013.

On the whole, despite the 10.1% annual increase in net interest income, our net interest margin experienced a slight annual decrease of one basis point, from 4.68% in 2012 to 4.67% in 2013. This was principally the result of a proportionally higher increase in interest earning assets (10.3% on an annual basis), especially average balances of total loans that grew by 9.9% in 2013 as compared to 2012, and average balances of financial investments (including Available-for-Sale and Held-for-Trading securities) that increased by 11.4% on a yearly basis. As for the latter, it is important to mention that interest accrued on trading securities is not recognized as interest revenue.

Interest Revenue

The following table sets forth information regarding our interest revenue and average interest earning assets for the years ended December 31, 2012, 2013 and 2014:

	For the Year Ended December 31,			% Increase (Decrease)	
	2012	2013	2014	2012/2013	2013/2014
IFRS:	(in millions of Ch$, except percentages)			%	
Interest revenue	Ch$ 1,672,766	Ch$ 1,765,942	Ch$ 2,045,604	5.6%	15.8%
Average interest earning assets:					
Commercial loans	11,476,946	12,477,510	13,316,594	8.7	6.7
Residential mortgage loans	3,924,080	4,455,850	5,082,293	13.6	14.1
Consumer loans	2,654,234	2,909,832	3,166,879	9.6	8.8
Total loans	18,055,260	19,843,192	21,565,766	9.9	8.7
Deposits in Central Bank	370,298	396,272	395,286	7.0	(0.2)
Repurchase agreements	42,109	27,382	27,704	(35.0)	1.2
Financial investments	1,748,349	1,946,975	1,969,070	11.4	1.1
Loans and advance to banks	381,578	496,870	602,968	30.2	21.4
Total	**Ch$ 20,597,594**	**Ch$ 22,710,691**	**Ch$ 24,560,794**	**10.3%**	**8.1%**
Average rates earned on total interest earning assets(1)(2):					
Average nominal rates	8.12%	7.78%	8.33%		

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

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

2013 and 2014. For the year ended December 31, 2014, our interest income was Ch$2,045,604 million, representing a 15.8% annual increase when compared to 2013. This increase was primarily attributable to: (i) higher than expected inflation, with the UF increasing by 5.65% on an annual basis in 2014, as compared to the increase of 2.05% in 2013, which positively impacted the interest earned on our UF asset exposure; (ii) loan book growth of 8.7% (based on average balances) in 2014 as compared to 2013, focused on retail banking (11.3% annual growth in average balances) and to a lesser extent on wholesale banking (4.2% annual growth in average balances); and (iii) the one-time effect associated with the early payment of a wholesale commercial loan. These positive effects allowed us to effectively cope with the effect of lower nominal interest rates on the return of interest earning assets denominated in Chilean pesos. Lastly, the average gross return on average interest earning assets increased from 7.78% in 2013 to 8.33% in 2014.

2012 and 2013. Our interest revenues recorded a 5.6% annual increase in 2013 as compared to 2012. This annual increase was primarily due to loan expansion (9.9% in average balances), especially focused on middle and upper income personal banking, SMEs and Middle Market Companies, with average loans to these segments increasing 13.1%, 12.6% and 14.2%, respectively. Despite the positive effect associated with loan growth, we recorded a decrease in the average yield of our interest earning assets, from 8.12% in 2012 to 7.78% in 2013. This annual decrease was mainly associated with: (i) lower UF variation (2.05% in 2013 as compared to 2.45% in 2012) that negatively impacted the interest earned on UF-denominated assets and (ii) reduced mid and long-term nominal interest rates, which impacted the interest earned on Ch$-denominated assets. Lastly, increasing balances of assets Available-for-Sale and Held-for-Trading also contributed to a lower yield, as interest accrued on trading securities is not fully allocated in this line item.

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, 2012, 2013 and 2014:

IFRS:	For the Year Ended December 31, 2012	2013	2014	% Increase (Decrease) 2012/2013	2013/2014
	(in millions of Ch$, except percentages)			%	
Interest expense	Ch$ 708,629	Ch$ 704,371	Ch$ 788,788	(0.6)%	12.0%
Average interest-bearing liabilities:					
Saving accounts and time deposits(1)	9,380,123	9,842,483	9,724,220	4.9	(1.2)
Securities under agreements to repurchase	286,944	289,107	262,301	0.8	(9.3)
Borrowings from financial institutions	1,435,362	1,201,866	1,137,199	(16.3)	(5.4)
Debt issued	2,838,170	3,771,209	4,897,000	32.9	29.9
Other financial obligations	170,977	173,868	190,159	1.7	9.4
Total	**Ch$ 14,111,576**	**Ch$ 15,278,533**	**Ch$ 16,210,879**	**8.3%**	**6.1%**
Average rates paid on total interest bearing liabilities(2):					
Average nominal rates	5.02%	4.61%	4.87%		
Average (Chilean peso-denominated) non-interest bearing current account and demand deposits	4,926,475	5,455,342	6,224,055	10.7%	14.1%

(1) Includes interest-earning demand deposits.

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

2013 and 2014. Our interest expense increased by approximately 12.0% on an annual basis, from Ch$704,371 million in 2013 to Ch$788,788 million in 2014. This annual increase was mainly caused by the effect of higher inflation (UF increased 5.65% in 2014 versus 2.05% in 2013) on our interest bearing liabilities denominated in UF. This effect was partly offset by: (i) the impact of successive cuts to the marginal standing facility rate by the Central Bank from 4.5% as of December 31, 2013 to 3.0% as of December 31, 2014, which reduced the cost of funding related to liabilities denominated in Chilean pesos; and (ii) a change in the funding mix reflected by the expansion in cheaper funding sources such as debt issued and non-interest bearing liabilities (current accounts and demand deposits) increasing by 29.9% and 14.1% on an annual basis, respectively. For these reasons, the average nominal rates paid on the average balance of interest bearing liabilities increased from 4.61% in 2013 to 4.87% in 2014.

2012 and 2013. Our interest expense decreased by 0.6% on an annual basis, from Ch$708,629 million in 2012 to Ch$704,371 million in 2013. This annual decrease was driven by effective management of our funding structure, brand recognition and also favorable shifts in market factors. As for the former, since 2011 we have increasingly diversified our liability structure by issuing debt internationally in various markets. Under this strategy, our overseas debt placements amounted to approximately U.S.$1,120 million in 2013 and bore low risk premiums given our high credit rating. In addition, based on our brand recognition and reliability among customers and non-customers, we recorded a 10.7% annual increase in average balances of current accounts and demand deposits, which provides us with a convenient source of funding. In this regard, an enlarged capital base in 2013 also contributed to reduce the cost of funding for our interest earning assets. Lastly, the lower interest expense was also the result of a positive repricing effect on our short-term interest bearing peso-denominated liabilities due to the drop in short-term interest rates towards the end of 2013. All of these factors collectively resulted in a decrease in the average nominal interest rate paid on our interest bearing liabilities from 5.02% in 2012 to 4.61% in 2013.

Table of Contents

Net Fees and Commissions Income

The following table sets forth certain components of our fees and commissions income (net of fees paid to third parties that provide support for those services) for the years ended December 31, 2012, 2013 and 2014:

IFRS:	Year Ended December 31, 2012	2013	2014	% Increase (Decrease) 2012/2013	2013/2014
	(in millions of Ch$, except percentages)			%	
Mutual funds	Ch$ 56,043	Ch$ 54,833	Ch$ 65,198	(2.2)%	18.9%
Insurance	60,481	62,378	54,345	3.1	(12.9)
Current accounts, overdrafts, credit lines and credit cards	61,442	55,824	37,531	(9.1)	(32.8)
Demand accounts and ATMs	28,521	28,896	30,283	1.3	4.8
Stock brokerage	10,236	10,067	7,873	(1.7)	(21.8)
Collection of over-due loans	20,670	22,998	22,012	11.3	(4.3)
Cash management services	14,443	14,570	14,707	0.9	0.9
Letters of credit, guarantees, collateral and other contingent loans	13,038	15,703	17,651	20.4	12.4
Custody and trust services	6,671	7,070	7,730	6.0	9.3
Foreign trade and currency exchange	6,005	7,234	7,762	20.5	7.3
Financial advisory services	3,955	4,054	6,081	2.5	50.0
Credits and factoring	4,562	2,203	2,514	(51.7)	14.1
Collection services	1,155	779	601	(32.6)	(22.8)
Teller services expenses	143	731	2,146	411.2	193.6
Credit pre-evaluation services	(2,223)	(2,251)	(2,146)	1.3	(4.7)
Other	2,130	2,004	(2,100)	(5.9)	
Total	**Ch$ 287,272**	**Ch$ 287,093**	**Ch$ 272,188**	**(0.1)%**	**(5.2)%**

2013 and 2014. During 2014 our income from fees and commissions was affected by various regulations that directly impacted our fee-based businesses, as well as unfavorable market and economic forces that translated into lower commercial activity for some of our subsidiaries. On the whole, our income from net fees and commissions decreased from Ch$287,093 million in 2013 to Ch$272,188 million in 2014, representing a 5.2% annual decrease. This annual decrease was mainly caused by:

Mixed trends in net fees and commissions from transactional services. On the one hand, net fees and commissions from credit lines, overdrafts, credit lines and credit cards decreased by approximately 32.8% or Ch$18,293 million on an annual basis. This downward shift was mainly caused by the effect of regulations affecting transactional services, as well as commercial decisions, including price adjustments to certain products, made by our management in order to promote the use of transactional services among our customers, especially credit cards. These effects were amplified by a negative exchange rate effect on U.S.$- denominated expenses related to credit card loyalty programs, produced by a higher Ch$ depreciation in 2014 as compared to 2013. The decrease in net fees and commissions associated with credit cards was partially offset by: (i) higher fees and commissions income from demand accounts/ATMs increasing by 4.8% (or Ch$1,387 million) and fees associated with reimbursement of teller services expenses increasing by 193.6% (or Ch$1,415 million) in 2014 as compared to 2013, in line with increases in ATM transactional volumes; and (ii) fees and commissions from credits and factoring increasing by 14.1% or Ch$311 million on an annual basis, mainly fostered by the expansion recorded by our retail banking loans, with average balances increasing 11.3% year on year.

The above mentioned factors were partially offset by an aggregate positive performance of net fees and commissions from specialized financial services provided by some of our subsidiaries. In this regard, fees and commissions associated with mutual funds management posted an annual increase of 18.9%, or Ch$10,365 million, in 2014. This increase is explained by the annual increase of 21.9% in average volumes of assets under management, which in turn supported an annual increase in market share from 21.3% in 2013 to 22.5% as of December 31, 2014. This performance was supplemented by a yearly increase of 50.0%, or Ch$2,027 million, in fees and commissions related to our financial advisory services. This advance was caused by the execution of diverse and important transactions in 2014. Nevertheless, this positive trend was partly offset by lower fees and commission income in both insurance and stock brokerage services. In insurance services, fees and commissions decreased by 12.9% or Ch$8,033 million on an annual basis. This decrease was caused by regulations affecting the insurance brokerage business, in particular, new guidelines for reimbursement of unused insurance policies in the case of early termination. On the other hand, fees and commissions related to stock brokerage dropped by 21.8% or Ch$2,914 million on an annual basis. Despite the annual increase of 38.6% in stock trading turnover managed by our stock brokerage subsidiary in 2014, fees and commissions decreased as a result of specific deals carried out throughout the year involving lower variable margins and to a lesser extent because of changes in the pricing scheme caused by modifications in customer segmentation.

A 12.4% (or Ch$1,948 million) increase in net fees and commissions income related to contingent credits (letters of credit, guarantees, collateral and other contingent loans), which in turn was supported by an 11.2% annual expansion in the average balances of contingent loans.

2012 and 2013. Our net fees and commissions income remained almost flat on an annual basis, amounting to Ch$287,093 million in 2013 as compared to Ch$287,272 million in 2012, which represents a slight 0.1% annual decrease. The slight annual decrease in net fees and commissions was primarily the consequence of:

A decrease in net fees and commissions related to traditional lending activities. In this regard, we recognized mixed forces affecting the business. On the positive side, we experienced an annual increase of 20.4% (or Ch$2,665 million) in net fees and commissions income from contingent loans (letters of credit, guarantees, collateral and other contingent loans), an increase of 11.3% (or Ch$2,328 million) in income from the collection of past-due loans and an increase of 20.5% (or Ch$1,229 million) in net fees from foreign trade and currency exchange. All of these positive trends were the result of our significant growth in our Large Companies and Real Estate Unit (companies with annual turnover between Ch$1,600 and Ch$70,000 million), as well as SMEs, since a significant portion of these companies are engaged in foreign trade transactions and working capital borrowings that normally involve letters of credit and guarantees. As for collection services, during 2013 we witnessed some signs of economic slowdown that led us to tighten the entire credit process (from assessment to collection), especially in those segments that are more exposed to macroeconomic fluctuations.

On the negative side, we experienced an annual decreases of 9.1% (or Ch$5,618 million) in fees and commissions from transactional services (current accounts, overdrafts, credit lines and credit cards) and a yearly decline of 51.7% (or Ch$2,359 million) in fees from credits and factoring. In this regard, lower fees and commissions from transactional services are mainly explained by a negative exchange rate effect on net fees from credit cards (as expenses of customer loyalty programs are denominated in U.S.$) due to the Chilean-peso devaluation of 9.6% in 2013 and the appreciation of 7.8% in 2012. As for fees and commissions from credits and factoring, the decrease is explained by a similar trend in year-end balances for factoring loans due to strong competition from other banking players. As a result of the regulation introduced towards the end of 2013, fees associated with transactional services (including current accounts, credit lines, credit cards, etc.) remained almost flat in 2013. See Item 4. Information on the Company Regulation and Supervision Consumer-oriented Regulation .

Fees and commissions associated with specialized financial services were also affected by mixed forces. Firstly, we experienced a 3.1% (or Ch$1,897 million) annual increase in fees and commissions from insurance brokerage. This was mainly attributable to an annual increase of 4.0% in written premiums and improved value offerings intended to offset the recent regulatory changes affecting the margin of the business. Conversely, net fees and commissions from our mutual funds business decreased by 2.2% (or Ch$1,210 million) on an annual basis. This was principally the result of unfavorable customer preferences, given the local and global macro scenario, rather than growth in assets under management (AUM). In fact, we continued to lead the market in terms of AUM by posting a 3.8% annual increase in balances and reaching a market share of 21.3% as of Dec. 31, 2013. However, since 2010 we have seen market trends associated with volatile stock markets that have encouraged investors to look for havens in fixed-income securities, which involve lower commissions than mutual funds invested in stocks.

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 marking 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

Table of Contents

and foreign exchange derivatives and gains and losses arising from the period-end translation of foreign currency denominated assets and liabilities into pesos. Foreign exchange results also include net adjustments on U.S. dollar-indexed domestic currency transactions and existing interest rate differences in currency derivatives.

The following table sets forth certain components of our other income (loss), net, for the years ended December 31, 2012, 2013 and 2014:

IFRS:	For the Year Ended December 31, 2012	2013	2014	% Increase (Decrease) 2012/2013	2013/2014
	(in millions of Ch$, except percentages)			%	
Interest accrued on trading securities	Ch$ 8,467	Ch$ 17,668	Ch$ 16,500	108.7%	(6.6)%
Gains (losses) from mark to market and sales	564	6,916	3,420		(50.5)
Financial Assets Held for Trading	**9,031**	**24,584**	**19,920**	**172.2**	**(19.0)**
Sales of Available for Sale Instruments	8,088	14,881	18,102	84.0	21.6
Net Gain (Loss) from other transactions	2,567	(1,089)	(38)		(96.5)
Derivative Instruments	(3,633)	(6,018)	(3,773)	65.6	(37.3)
Sales of Loan Portfolios	146	314	993	115.1	216.2
Total net financial operating (loss) income	**16,199**	**32,672**	**35,204**	**101.7**	**7.7**
Foreign exchange transactions, net	35,136	71,457	70,225	103.4	(1.7)
Other operating income, net	20,887	25,884	27,211	23.9	5.1
Total other income (loss), net	**Ch$ 72,222**	**Ch$ 130,013**	**Ch$ 132,640**	**80.0%**	**2.0%**

2013 and 2014. Our other income (loss) net was Ch$132,640 million in 2014, representing a 2.0% annual increase as compared to the Ch$130,013 million recorded in 2013. This annual increase was the result of a combination of diverse factors, including:

A decrease in losses from the management of derivative instruments and other transactions. During 2014, we recorded losses from derivatives contracts of approximately Ch$3,773 million, as compared to the net loss of Ch$6,018 million recorded for the year ended December 31, 2013. Furthermore, we reduced losses associated with other transactions from Ch$1,089 million in 2013 to Ch$38 million in 2014. The reduced amount of losses from derivatives contracts was mainly caused by a positive FX impact of approximately Ch$12,187 million. This positive FX impact was prompted by a decrease in our liability position throughout 2014, which allowed us to offset the 15.3% Chilean peso devaluation in 2014. This positive effect was partly counterbalanced by: (i) a net negative variance of Counterparty Value Adjustment for derivatives by approximately Ch$6,751 million in 2014 as compared to 2013; and (ii) higher ineffectiveness of fair value hedging positions by approximately Ch$2,045 million in 2014 as compared to 2013.

The previously mentioned positive impact associated with a decrease in losses from derivatives was partially offset by lower revenues from the management of our investment portfolio, including both financial assets held-for-trading and available-for-sale instruments. This decrease was mainly the result of gains from financial assets held-for-trading, which decreased by Ch$4,664 million on an annual basis, from Ch$24,584 million in 2013 to Ch$19,920 million in 2014, prompted by lower sales of these kinds of instruments during 2014. In fact, the impact of lower rates on the interest accrued on these instruments was mostly offset by increasing positions. The lower results from trading securities was partly offset by approximately Ch$3,221 million of greater sales of available-for-sale instruments, given the cumulative marking-to-market caused by lower interest rates.

A slight decrease of 1.7%, or Ch$1,232 million, in foreign exchange transactions net, from Ch$71,457 million in 2013 to Ch$70,225 million in 2014. This decrease was primarily produced by losses of approximately Ch$14,166 million related to the effect of a higher Chilean peso depreciation in 2014 (15.3%) as compared to 2013 (9.6%) on our net liability positions in FX derivatives. This negative result was partly counterbalanced by: (ii) higher income of roughly Ch$7,600 million associated with the asset FX position that hedges our exposure to U.S.$-denominated provisions for loan losses and fee expenses, given the previously mentioned shifts in the

Ch$/U.S.$ exchange rate; and (ii) higher gains from cash flow hedge accounting of approximately Ch$2,674 million due to the same reason.

Table of Contents

2012 and 2013. In 2013, our other income (loss), net was Ch$130,013 million, which was 80.0% above the Ch$72,222 million recorded in 2012. This annual increase was principally associated with:

Higher revenues from the management of our investment portfolio, which is composed of financial assets held for trading and available for sale instruments. In this regard, gains from the management of trading securities increased from Ch$9,031 million in 2012 (including accrued interest of Ch$8,467 million and gains from mark-to-market of Ch$564 million) to Ch$24,584 million in 2013 (including accrued interest of Ch$17,668 million and gains from mark-to-market of Ch$6,916 million). This was the result of favorable shifts in market factors, especially those associated with lower international interest rates due to reduced risk premiums worldwide, which enabled our Treasury to take advantage of significant mark-to-market gains. This effect was amplified by year end balances of financial-assets-held-for-trading that increased from Ch$159,082 million in 2012 to Ch$326,921 million in 2013. Regarding available for sale assets, we benefited from an increase in sales proceeds, from Ch$8,088 million in 2012 to Ch$14,881 million in 2013, partly explained by proceeds from the sale of Master Card shares amounting to approximately Ch$4,850 million.

Losses on derivative contracts that increased from Ch$3,633 million in 2012 to Ch$6,018 million in 2013. This was the result of: (i) a negative FX impact of approximately Ch$26,500 million associated with a decrease of 7.6% and an increase of 9.8% in the Ch$/U.S.$ exchange rate in 2012 and 2013, respectively, together with an average FX position in trading derivatives that changed from net assets of approximately U.S.$450 million in 2012 to net liabilities of approximately U.S.$490 million in 2013; and (ii) the ineffectiveness of fair value hedging positions by approximately Ch$1,800 million. These negative factors were partly offset by: (i) favorable shifts in nominal interest rates, which along with changes in our net positions translated into higher revenues associated with mark-to-market and accrual by approximately Ch$19,500 million; and (ii) net positive impact of Counterparty Value Adjustment for derivatives of approximately Ch$6,000 million in 2013 as compared to 2012.

Higher income from foreign exchange transactions, net, which increased from Ch$35,136 million in 2012 to Ch$71,457 million in 2013. The increase in this line item was mainly attributable to: (i) a positive exchange rate effect associated with a 9.6% increase in the Ch$/U.S.$ exchange rate in 2013 as compared to the decrease of 7.8% in 2012, which translated into higher revenues of approximately Ch$17,600 million related to the asset position that hedges our exposure to provisions for loan losses and fee expenses denominated in U.S.$; and (ii) net gains from cash flow hedge accounting that increased by approximately Ch$66,000 million in 2013 as compared to 2012, also related to the exchange rate behavior mentioned above. These factors allowed us to effectively offset lower revenues by approximately Ch$46,500 million associated with net liability positions in foreign exchange and the previously mentioned exchange rate trends in 2012 as compared to 2013.

Provisions for Loan Losses

We recognize allowances to cover possible credit losses in accordance with IFRS as issued by the IASB. For statistical information with respect to our substandard loans and allowances for loan losses, see Item 4. Information on the Company Selected Statistical Information and Note 11(b) to our audited consolidated financial statements as of and for the year ended December 31, 2014. According to regulations applicable to such periods, the amount of provisions charged to income in any period consists of net provisions for possible loan losses.

The following table sets forth information with respect to our provisions and allowances for loan losses and charge-offs for each of the years ended December 31, 2012, 2013 and 2014:

IFRS:	For the Year Ended December 31, 2012	2013	2014	% Increase (Decrease) 2012/2013	2013/2014
	(in millions of Ch$, except percentages)			%	
Provisions:					
Gross provisions for loan losses	Ch$ 207,382	Ch$ 264,608	Ch$ 307,875	27.6%	16.4%
Total loan loss recoveries	40,962	42,955	46,309	4.9	7.8
Net provisions for loan losses	166,420	221,653	261,566	33.2	18.0
Charge-offs:					
Total charge-offs	182,733	196,535	255,342	7.6	29.9
Net charge-offs	141,771	153,580	209,033	8.3	36.1
Other asset quality data:					
Total loans	Ch$ 18,771,761	Ch$ 20,880,770	Ch$ 21,891,333	11.2	4.8
Average Loans	18,055,260	19,843,192	21,565,766	9.9	8.7
Allowances for loan losses	387,803	439,298	490,558	13.3%	11.7%
Allowances for loan losses as a percentage of total loans	2.07%	2.10%	2.24%		
Provisions for loan losses as a percentage of average loans	0.92%	1.12%	1.21%		

2013 and 2014. Our provisions for loans losses increased by 18.0% in 2014, from Ch$221,653 million in 2013 to Ch$261,566 million in 2014. Similar to the previous year, the change in provisions for loan losses was explained by business factors and changes in specific market variables rather than by deterioration in asset quality. The main forces explaining the annual increase in risk provisioning were as follows:

Loan growth and changes in the portfolio mix. As displayed by the table above, our average total loans recorded an 8.6% annual increase in 2014 as compared to 2013. This expansion in loan volumes primarily explained approximately Ch$11,800 million of the total increase in loan loss provisions occurring between 2014 and 2013. Also, this increase was supported by growth in retail banking, which posted an annual expansion of 11.3% in average loans as compared to the increase of 4.2% in average loans recorded by our wholesale banking segment.

A negative exchange rate effect on U.S.$-denominated allowances for loans losses. This was produced by a higher Chilean peso devaluation in 2014 (15.3%) as compared to 2013 (9.6%), which affected our net liability position in provisions for loan losses associated with U.S.$-denominated loans, particularly concentrated in the wholesale banking segment. This effected translated into a higher exchange rate effect of approximately Ch$7,600 million in 2014 as compared to 2013.

A net deterioration of approximately Ch$10,412 million. This deterioration was caused by a low basis for comparison, which is explained by an allowance release of approximately Ch$9,000 million in 2013, due to the improved financial condition of a specific wholesale customer. Similarly, we experienced a moderate increase in overall past-due loans in 2014 as compared to 2013, although the increase was concentrated in retail banking (78.3%) rather than wholesale banking (21.7%).

As a result of the above, our indicator of provisions for loan losses over average loans recorded an annual increase of 9 bp from 1.12% in 2013 to 1.21% in 2014. Most of this increase was explained by the previously mentioned FX effect on U.S.$-denominated provisions. In addition, our risk index (allowances for loan losses over total loans) increased from 2.10% in 2013 to 2.24% in 2014.

In regards to delinquency, our past-due loans ratio (loans 90 days or more past due) recorded an increase from 1.13% in 2013 to 1.25% in 2014. This increase was associated with retail as well as wholesale banking and we believe it is aligned with the economic backdrop, which has been characterized by deceleration in both private consumption and investment. Accordingly, the risk profile of individuals and companies deteriorated slightly throughout the year. Based on this evidence, during 2014 we continued to strengthen our entire credit process (from assessment to rendering) while bolstering our collection procedures. We believe these measures have permitted us to deal with environmental conditions while maintaining our low delinquency ratio (compared to the ratios reported by our main competitors). See Item 4. Information on the Company Selected Statistical Information Classification of Loan Portfolio Based on the Borrower s Payment Performance .

2012 and 2013. Our provisions for loan losses recorded a 33.2% annual increase, from Ch$166,420 million in 2012 to Ch$221,653 million in 2013. Although this annual increase was almost three times our loan growth, it can be largely explained by business drivers and changes in market variables rather than credit deterioration. The main factors explaining the annual increase in provisions for loan losses were:

Loan book expansion focused on retail banking, which produced an important volume effect. Our average balances of total loans grew by 9.9% in 2013 as compared to 2012. This increase was mainly supported by a 12.2% annual increase in average loans managed by our retail banking and to a lesser extent average loans handled by our wholesale banking segment that increased by 5.5% on an annual basis. This loan growth resulted in a volume effect on provisions for loan losses of approximately Ch$22,500 million.

It is worth mentioning that this volume effect encompasses a mix effect of approximately Ch$6,000 million due to a proportionally higher expansion in retail than wholesale banking loans.

A negative exchange rate effect on provisions for loan losses linked to U.S.$-denominated loans that are mainly focused on middle market companies. On an annual basis, the negative impact was caused by both a decrease of 7.8% in the Ch$/U.S.$ exchange rate in 2012 as compared to a 9.6% increase in the Ch$/U.S.$ exchange rate in 2013. Exchange rate shifts explained approximately Ch$12,800 million of the higher provisions for loan losses.

Approximately Ch$10,400 million associated with greater provisions for loan losses that we set aside in order to recognize the deteriorated financial condition of one specific corporate customer in 2013, and to a lesser extent a gradual deterioration in the credit condition of the SME segment that we witnessed in 2013, in line with an economic cycle that slowed down moderately.

Based on the above, our credit quality ratios recorded a slight deterioration in 2013 as compared to 2012. In fact, our ratio of provisions for loans losses as a percentage of average loans rose by 20 bps on an annual basis, from 0.92% in 2012 to 1.12% in 2013. By adjusting the other than loan related factors, the indicator would have slightly increased on an annual basis.

As for delinquency, in 2013 we witnessed a 30.2% annual increase in the level of past-due loans (90 days or more), which reached a total of Ch$236,730 million as of December 31, 2013. This annual increase was principally fostered by higher delinquency in our retail banking segment, in connection with greater balances of past-due loans (90 days or more) associated with SMEs and, to a lesser extent, individual banking. This trend was the result of an economic cycle that showed certain signs of slowdown in 2013, especially in investment rates, after three years of sustained growth, with annual GDP expansion rates above 5.0%. However, given our focus on maintaining healthy asset quality, we have tightened the entire credit process, from assessment to collection, in order to control the overall level of delinquency in our total loan book. All in all, our delinquency ratio (loans 90 days or more past-due over total loans) increased from 0.97% in 2012 to 1.13% in 2013, though continued to compare very favorably with that of our peers. See Item 4. Information on the Company Selected Statistical Information Classification of Loan Portfolio Based on the Borrower s Payment Performance .

Operating Expenses

The following table sets forth information regarding our operating expenses for the years ended December 31, 2012, 2013 and 2014:

	For the Year Ended December 31,			% Increase (Decrease)	
	2012	2013	2014	2012/2013	2013/2014
IFRS:	(in millions of Ch$, except percentages)			%	
Personnel expenses	Ch$ 309,865	Ch$ 323,236	Ch$ 384,512	4.3%	19.0%
Administrative expenses:					
Advertising	30,572	29,053	29,431	(5.0)	1.3
Building maintenance	29,332	28,067	30,368	(4.3)	8.2
Rentals and insurance	22,486	23,297	24,861	3.6	6.7
Office supplies	6,346	8,375	8,350	32.0	(0.3)
Other expenses	158,723	163,710	177,527	3.1	8.4
Total administrative expenses	247,459	252,502	270,537	2.0	7.1
Depreciation and amortization	35,146	27,677	32,787	(21.3)	18.5
Impairments	899	2,247	2,085	149.9	(7.2)
Other operating expenses	19,565	13,868	37,439	(29.1)	170.0
Total	**Ch$ 612,934**	**Ch$ 619,530**	**Ch$ 727,360**	**1.1%**	**17.4%**

2013 and 2014. Our operating expenses were Ch$727,360 million in 2014, a 17.4% annual increase as compared to the Ch$619,530 million recorded in the previous year. This annual increase involved diverse non-recurring effects, including the impact of shifts in market factors as well as recurrent business operations. Accordingly, the annual increase in operating expenses was mainly attributable to:

- Non-recurring personnel expenses of approximately Ch$45,105 million in 2014 as compared to 2013. This amount was related to special bonuses granted to our staff as a result of the collective bargaining agreements reached with most of our unions during 2014. These negotiations concluded with four-year collective bargaining agreements that reflect the positive relationships with our workforce.

- Recurring personnel expenses that increased from Ch$323,236 million in 2013 to Ch$339,407 million in 2014 (total amount of Ch$384,512 million less non-recurring personnel expenses of Ch$45,105 million as mentioned above), representing a 5.0% annual increase. The growth in recurring personnel expenses was aligned with inflation, which (measured as CPI variation) recorded an increase of 4.6% in 2014 and prompted salary adjustments.

- Administrative expenses that grew by 7.1% on an annual basis, from Ch$252,502 million in 2013 to Ch$270,537 million in 2014. This annual increase of Ch$18,035 million was mainly caused by: (i) higher IT and communications expenses of approximately Ch$5,520 million, as a result of internal developments and licenses; (ii) an annual increase of roughly Ch$3,104 million in expenses related to outsourced workforce, primarily associated with internal IT projects; (iii) building maintenance expenses that increased by approximately 8.2% (or Ch$2,301 million) for the year, as a result of permanent maintenance to our branch network and headquarter buildings, as well as opening and closing of branches throughout the country; (iv) other branch-related expenses (rentals, insurance and services) that increased by approximately Ch$2,306 million in 2014 as compared to 2013; and (v) general administrative expenses that increased by nearly Ch$4,060 million in 2014 as compared to 2013.

- Other operating expenses that increased by approximately Ch$23,571 million in 2014 as compared to 2013. This was the consequence of the recognition of higher charges associated with write-offs of assets received in lieu of payment and the establishment of contingency allowances that are not related to lending matters.

2012 and 2013. In 2013 our total operating expenses were Ch$619,530 million. This represented a moderate annual increase of 1.1% when compared to the Ch$612,934 million reported in 2012. This increase was principally caused by:

- An annual increase of 4.3% (or Ch$13,371 million) in personnel expenses, which was mainly related to the recognition of inflation in salaries and the expansion of 1.0% in headcount. Furthermore, we recorded higher other personnel expenses associated with training activities and general benefits to our staff.

- Administrative expenses that increased by 2.0% (or Ch$5,043 million) on an annual basis, principally as a consequence of: (i) office supplies expenses that increased by 32.0% (or Ch$2,026 million) on a yearly basis, mainly related to the purchase of password-generating devices for electronic money transfers carried out by customers, (ii) IT expenses that rose by 3.7% (or Ch$1,795 million) due to higher expenses in on-going projects and internal developments, and (iii) rentals and insurance expenses that increased by 3.6% (or Ch$811 million) on an annual basis, mainly due to market trends in real estate across the country.

- The above factors were partly offset by a decrease of 29.1% (or Ch$5,697 million) in other operating expenses, mainly explained by higher operational write-offs recognized in 2012.

Income Tax

Under Law No. 19,396 we are permitted to deduct dividend payments made to SAOS from our taxable income. Consequently, our effective tax rate is lower than the statutory corporate income tax rate because of the deduction of these 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 through deferred taxes. Finally, until 2014 all real estate taxes paid on properties that are leased to customers were deductible from our taxable income as a tax credit. However, in light of the tax reform approved in 2014, for the year ended December 31, 2015 only 50% of these kinds of taxes can be deducted from our taxable income. From 2016 onwards, no tax credits will allowed from taxes paid on leased properties. For more information, see Item 10. Additional Information Taxation Chilean Tax Considerations Tax Reform Law N° 20,780.

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

On April 1, 2014 the recently assembled government sent to the Chilean congress a tax reform bill. Among other matters, the bill contemplated a gradual increase in the statutory corporate tax rate over a four year period. The bill was finally passed in September 2014, including changes to the statutory corporate tax rate and modifications for personal taxation purposes, particularly associated with dividends related taxes affecting both local and foreign investors. In summary, the tax reform gradually increases the statutory corporate tax rate between 2014 and 2018 while establishing two alternative tax regimes from 2017 onwards: (i) the Semi-Integrated regime and (ii) the Attribution regime. The tax reform increases the statutory corporate tax rate from 20.0% in 2013 to 21.0% in 2014, 22.5% in 2015 and 24.0% in 2016. From 2017 onwards, the statutory corporate tax rate will depend on the tax regime selected by the company s owners. If the Semi-Integrated regime is selected, the company will be subject to a statutory corporate tax rate of 25.5% in 2017 and 27.0% from 2018 onwards. If, instead, the Attribution regime is selected, the company will be subject to a corporate tax rate of 25.0% from 2017 onwards. The regime chosen by owners or shareholders of the company will have an effect on the taxes paid by both local and foreign holders of shares or ADS. For more information, see Item 3. Key Information Risk Factors Risks relating to Chile Recent changes in the Chilean Tax System could impact the profitability of investments held by foreign and local investors. and Item 10. Additional Information Taxation Chilean Tax Considerations Tax Reform Law N° 20,780.

2013 and 2014. Our income tax expense was Ch$79,685 million in 2014, which represented a 10.6% annual decrease from the Ch$89,085 million recorded in 2013. In spite of the increase in the statutory corporate tax rate, prompted by the recently approved tax reform, from 20.0% in 2013 to 21.5% in 2014, as well as the annual increase of 5.6% in our income before income tax within the same period, we benefited from the tax reform as a result of our deferred taxes. In fact, the incremental tax rate for the upcoming years positively affected our deferred taxes, since future expenses (such as loan charge-offs) may be deducted from our taxable income base at a higher tax rate. This effect amounted to approximately Ch$$12,284 million and together with inflation explained the reduction in the effective tax rate from 13.9% in 2013 to 11.8% in 2014. The recently enacted tax reform establishes the cash basis regime as the default scheme; however, it allows shareholders at a shareholders meeting to vote for the implementation of the accrued earning system in 2016. Accordingly, the effect on deferred taxes was calculated by assuming the default scenario.

2012 and 2013. Our income tax expense was Ch$89,085 in 2013, representing a 39.4% annual increase from the Ch$63,928 million recorded in 2012. This annual increase resulted in a higher effective tax rate of 13.9% in 2013 as compared to 11.8% in 2012. This was primarily the result of a low basis for comparison in 2012, since we obtained non-recurring tax benefits associated with our deferred taxes due to the increase in the statutory corporate tax rate as enacted in 2012, as explained above.

Business Segments

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

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

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

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

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

Operations through subsidiaries: This segment includes all companies controlled by us whose results are obtained individually by the respective company. As of December 31, 2014, this business segment consisted of:

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

On June 19, 2013, Banco de Chile acquired all of the shares of Banchile Factoring S.A. owned by Banchile Asesoría Financiera. As a result of this transaction, Banco de Chile fully acquired the assets and liabilities of Banchile Factoring S.A. and on June 30, 2013 this subsidiary was dissolved.

During 2014, we began a voluntary dissolution process for Banchile Trade Services Limited in Hong Kong. We expect to complete this process before the end of 2015.

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

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

The financial information used to measure the performance of our business segments is not necessarily comparable with similar information from other financial institutions because it is based on our internal reporting policies. The accounting policies used to prepare our operating segment information are similar to those described in Note 2(af) to our audited consolidated financial statements as of and for the year ended

December 31, 2014 appearing elsewhere in this annual report, except as noted below:

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

Table of Contents

The results associated with gap management (interest rate and currency mismatches) are allocated to the business segments in proportion to the loans and demand deposits managed by each segment.

For purposes of allocating the effect of funding through capital and reserves, the internal performance profitability system considers capital allocation in each segment in accordance with Basel guidelines.

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

We apply Chilean GAAP, as required by the SBIF, when measuring and recording allowances for loan losses, assets received in lieu of payments, minimum dividend allowances and other minor items for internal reporting purposes. These accounting principles differ in certain respects from IFRS. A description of these differences is presented below under Summary of Differences between Internal Reporting Policies and IFRS.

Net Income by Business Segment

The following table sets forth income before income tax by business segment in accordance with our internal reporting policies for each of the years ended December 31, 2012, 2013 and 2014:

	For the Year Ended December 31,			% Increase (Decrease)	
BANK S INTERNAL REPORTING POLICIES:	**2012**	**2013**	**2014**	**2012/2013**	**2013/2014**
	(in millions of Ch$, except percentages)			**%**	
Retail banking	Ch$ 250,283	Ch$ 303,235	Ch$ 284,379	21.2%	(6.2)%
Wholesale banking	214,151	247,406	289,752	15.5%	17.1%
Treasury and Money Market	22,819	10,096	42,441	(55.8)%	320.4%
Subsidiaries	34,748	32,802	34,036	(5.6)%	3.8%
Other					
Income before Income tax	Ch$ 522,001	Ch$ 593,539	Ch$ 650,608	13.7%	9.6%

Retail Banking

2013 and 2014. Our Retail Banking segment recorded income before income tax of Ch$284,379 million in 2014, which represented a 6.2% annual decrease when compared to the Ch$303,235 million recorded in 2013. The annual decrease in income before income tax was mainly caused by credit risk and operating expenses increasing more than the expansion in operating revenues. Hence, the performance of our retail banking segment principally relied on:

Operating expenses that increased 16.6%, mainly as a result of non-recurring charges. As mentioned earlier, during 2014 we renegotiated most of our collective bargaining agreements. As a result, a significant portion of this non-recurring item (Ch$45,105 million for the Bank as a whole) was charged in this segment, since it is the largest unit by number of employees. In addition, personnel expenses, as well as some other items associated with third-party providers, internal developments and other line items, are indexed to inflation. Accordingly, part of the increase in operating expenses reflected the impact of higher inflation in 2014 (CPI variation of 4.6%).

An annual increase of 14.4% in provisions for loans losses. This increase was in line with both environmental and non-recurring factors, such as: (i) the loan book expansion displayed by the segment with average loans growing by 11.3% on an annual basis, particularly focused on higher-income individuals; (ii) the slowdown evidenced by the Chilean economy together with downward expectations on the economic outlook, all of which led the Bank to be more cautious in credit risk matters; and (iii) higher additional provisions allocated to this segment in comparison with the amount allocated last year, due to the establishment of additional allowances.

Table of Contents

The factors mentioned above were partially offset by a 8.5% annual increase in operating revenues. This increase was explained by mixed forces, as follows:

The positive effect of higher inflation that (measured as UF variation) increased by 5.65% in 2014 as compared to 2.05% in 2013, which increased the contribution of the UF net asset exposure allocated to the segment. This effect, together with a favorable repricing effect on Ch$ interest bearing liabilities, prompted a 13.5% rise in the net interest income of the segment.

An annual decrease of 10.4% in net fees and commissions. This was explained by both commercial decisions and the effect of regulations impacting certain businesses related to this segment. As for the former, the segment made certain decisions in order to promote the usage of credit cards, which resulted in lower fees associated with this product. Regarding the latter, insurance brokerage fees, which are an important source of revenues for this segment (in both life and casualty), were impacted by regulations requiring the reimbursement of unused premium policies, due to early termination.

2012 and 2013. The income before income tax of our Retail Banking segment was Ch$303,235 million in 2013, which was 21.2% over the Ch$250,283 million recorded in 2012. The annual performance of this segment took place amid new regulations that put pressure on the individual banking business by cutting interest rate ceilings, reducing margins in insurance brokerage and empowering banking customers. Nevertheless, we believe that our Retail Banking segment could overcome these trends by improving segmentation, enhancing transactional services and more importantly growing selectively. The main reason behind the increase in the segment s income before income tax was the 9.6% annual increase in operating revenues, principally fostered by:

A loan book that maintained a growth trend by increasing year-end and average loans balances by 10.9% and 12.2%, respectively, on an annual basis. These volume trends corresponded to lending spreads that slightly dropped in 2013 as compared to 2012. The segment s loan growth was mainly associated with the expansion in the middle and upper income segments of Individual Banking (annual increase of 13.1% in average loans) and SMEs (annual increase of 12.6% in average loans). Conversely, based on our less positive and riskier outlook for the consumer finance business, we tightened the entire credit process, thereby causing a slowdown in loans managed by our Consumer Division, as shown by average loans increasing 3.9% on an annual basis.

A sustained upward trend in non-interest bearing liabilities. In this regard, the average balances of current accounts and demand deposits handled by this segment recorded a 12.2% annual increase, which had a positive impact on the profitability of interest earning assets funded with these kinds of deposits. The expansion in volumes compensated for the cuts in the monetary policy interest rate.

Higher contribution from the UF net asset position allocated to the segment, due to a greater exposure to UF-indexed assets and more convenient funding associated with Ch$-denominated liabilities, rather than higher UF variation.

These factors more than offset a 2.1% decrease in fees and commissions that was largely explained by lower fee income from insurance brokerage and a negative exchange rate effect in expenses related to the customer loyalty program for credit cards due to an increase in the Ch$/U.S.$ exchange rate.

The increase in operating revenues enabled us to more than offset a 12.8% annual increase in provisions for loan losses. The increase in credit risk charges was largely explained by the increase of 12.2% in average loans managed by the segment, in conjunction with greater countercyclical provisions that were partly allocated to this segment in 2013 as compared to 2012.

Wholesale Banking

2013 and 2014. Our Wholesale Banking segment recorded a 17.1% annual increase in income before income tax, from Ch$247,406 million in 2013 to Ch$289,752 million in 2014. In spite of the moderate loan book expansion, this segment benefited from exogenous factors as well as non-recurring events that boosted operating revenues by 19.1% on an annual basis. This performance in revenues was mainly steered by:

An annual increase of 25.2% in net interest income. This increase was primarily attributable to: (i) a positive inflation effect associated with the UF net asset position allocated to this segment and the previously mentioned behavior of the UF (measure of inflation) over the last two years; (ii) a favorable repricing effect on the Ch$ interest bearing liabilities given the easing policy undertaken by the Central Bank, which reduced the monetary policy interest rate from 4.5% to 3.0% between 2013 and 2014; (iii) non-recurring revenues associated with the early settlement of one commercial loan; and (iv) loan growth reflected by average balances that increased 4.2% annually.

Table of Contents

The factors mentioned above permitted the segment to effectively deal with a 5.4% annual decrease in net fees and commissions, mainly attributable to lower fee-based income from credits and factoring. This was aligned with the tempered expansion in the segment s loan book.

The solid trend followed by revenues permitted the segment to successfully cope with provisions for loan losses climbing by 30.5% and operating expenses increasing by 17.8%, both on an annual basis. Regarding credit risk charges, the annual increase was primarily explained by: (i) a negative exchange rate effect on the U.S.$-denominated provisions for loan losses (mostly linked to this segment) associated with a higher Ch$ depreciation in 2014 (15.3%) as compared to 2013 (9.6%); (ii) the allocation of the higher additional allowances set during 2014 in order to face a complex business environment; and (iii) a low basis for comparison related to a significant allowance release in 2013, associated with the improvement in the financial condition of one customer. Regarding operating expenses, the annual increase was mostly explained by the same drivers mentioned in the case of the Retail Banking segment, such as the special bonus granted to our workforce, as a consequence of the collective bargaining agreements signed this year, and the impact of inflation on UF-indexed expenses.

Finally, for the year ended December 31, 2014 there were no material effects associated with sales of loan portfolios.

2012 and 2013. Our Wholesale Banking segment recorded income before income tax of Ch$247,406 million in 2013, an annual increase of 15.5% as compared to the Ch$214,151 million recorded a year earlier. In 2013 this segment faced intense competition from local banking players, but also from international debt markets where Chilean companies increasingly raised funds by taking advantage of low international interest rates and the country s credit rating. Despite this competitive environment, our Wholesale Banking segment was able to achieve this significant increase in income before income tax by prioritizing growth in those businesses with favorable fair risk-return relationship and in which we had room to increase penetration.

The significant increase in the segment s income before income tax was mainly attributable to an annual expansion of 19.1% in operating revenues, primarily caused by:

Loans that expanded 11.6% in year-end balances and 5.5% in average balances, both on an annual basis. As mentioned earlier, loan growth was largely fostered by higher penetration of Large Companies and Real Estate, for which average loans increased by 14.2% on a yearly basis, somewhat due to short-term financing loans granted in the fourth quarter of 2013. Conversely, average loans managed by our Corporate Banking (annual turnover above Ch$70,000 million) decreased 4.0% on an annual basis. It is important to mention that loan growth in our Wholesale Banking segment encompassed the acquisition of a portfolio of commercial loans amounting to approximately Ch$500,000 million.

A positive impact on revenues from the funding with non-interest bearing liabilities. Similar to the Retail Banking segment, average balances of current account and demand deposits held by the Wholesale Banking segment posted a 7.4% annual increase. Once again, this increase in volumes enabled us to more than offset the negative effect of a monetary policy interest rate that was cut twice (by 25 bp each time) in 2013, which affected the contribution of these liabilities as sources of funding.

A higher contribution from our UF net asset position. This was prompted by an enlarged UF asset exposure and better funding conditions with Ch$-denominated interest bearing liabilities, rather than an increase in inflation in 2013 as compared to 2012 (UF variation was 2.45% in 2012 and 2.05% in 2013).

The above factors enabled the Wholesale Banking segment to offset an annual increase of approximately Ch$30,400 million in provisions for loan losses. This increase was composed of: (i) a negative exchange rate effect of approximately Ch$13,400 million, due to a decrease of 7.8% in the exchange rate (Ch$/U.S.$) in 2012 and an increase of 9.6% in 2013, (ii) nearly Ch$12,700 million related to the deteriorated credit condition of a specific corporate customer in 2013 and (iii) the allocation of higher countercyclical allowances set in 2013.

Table of Contents

For the year ended December 31, 2013 there were no material effects associated with sales of loan portfolios.

Treasury and Money Market

2013 and 2014. Our Treasury and Money Market segment posted income before income tax of Ch$42,441 million in 2014, which compared favorably to the Ch$10,096 million recorded in 2013. This performance was mainly associated with operating revenues increasing from Ch$16,307 million in 2013 to Ch$47,051 million in 2014. Therefore, this annual increase was mainly related to:

- A positive effect of inflation on the accrual of UF-indexed financial instruments held in our investment portfolio. As mentioned earlier, this was the result of a 5.65% annual increase in the value of the UF, as compared to the 2.05% recorded a year earlier.
- Sales of available for sale instruments that amounted to Ch$18,102 million in 2014 as compared to Ch$14,881 million in 2013. In this regard, we took advantage of cumulative mark-to-market of AFS securities generated over the year, as a result of lower interest rates.
- Lower losses from derivative contracts held for trading, as a result of a positive FX impact, primarily associated with decreasing liability exposures amid a scenario of increasing Ch$ depreciation. This effect permitted us to offset the impact of higher losses related to counterparty value adjustment in 2014 as compared to 2013, as well as the ineffectiveness of hedging.

The above factors were complemented by better performance in operating expenses, which declined from Ch$6,353 million in 2013 to Ch$4,660 million in 2014.

2012 and 2013. In 2013, the income before income tax of our Treasury posted a 55.8% annual decrease from Ch$22,819 million in 2012 to Ch$10,096 million earned in 2013. The main reason for a reduced income before income tax was a similar annual decline of 50.2% in operating revenues, principally due to:

- A decrease in other operating revenues by approximately Ch$20,400 million in 2013 as compared to 2012. This was principally the consequence of the previously mentioned one-off effect associated with the first time adoption of the credit value adjustment on derivatives.
- Revenues from positions in assets held for trading that decreased by approximately Ch$5,900 million on a yearly basis. This lower performance had mainly to do with downward shifts in the CLP/CLF yield curve that affected our net positions in derivatives. Furthermore, upward changes in the CLP/USD yield curve contributed to lower results from our net on-shore/off-shore positions.
- The above factors were partly offset by higher revenues from the management of our Available-for-Sale portfolio, as a result of net revenues from sales that amounted to approximately Ch$8,100 million in 2012 as compared to Ch$14,900 in 2013.

Operations through Subsidiaries

2013 and 2014. Our subsidiaries recorded income before income tax of Ch$34,036 for the year ended December 31, 2014, which was 3.8% above the Ch$32,802 million reported in 2013. The main drivers supporting this performance were:

- An annual increase of approximately 28.2% (or Ch$4,040 million) in income before income tax generated by our Mutual Funds subsidiary. This increase was caused by a 21.0% annual increase in AUM, which permitted the subsidiary to achieve a market share of 22.5% as of December 31, 2014. Also, the expansion in business volumes enabled the subsidiary to offset lower margins associated with portfolio rebalancing that increased the share of fixed-income securities.

A Ch$1,798 million increase in income before income tax in our Financial Advisory subsidiary. This performance was related to important transactions conducted by our subsidiary in diverse aspects of the business, ranging from debt restructuring to mergers and acquisitions. As a result, the subsidiary s operating revenues increased by Ch$2,195 million in 2014 as compared to 2013, which explained most of the change in income before income tax.

Table of Contents

These positive factors were partially offset by the following factors:

An annual decrease of nearly Ch$3,158 million in the income before income tax generated by our Insurance Brokerage subsidiary in 2014 as compared to 2013. As mentioned before, the insurance brokerage business has been under pressure over the last few years due to various regulations that have impacted operating margins. In particular, during 2014 the operating revenues of our Insurance Brokerage Subsidiary were hit by a regulation that compels insurance brokers to reimburse the non-used portion of an insurance policy in case of early termination of the contract (whether linked to loans or not), for all of those policies paid upfront by the customer. Furthermore, our Insurance Brokerage Subsidiary posted an annual increase of roughly Ch$1,754 in operating expenses.

A yearly decrease of approximately 12.0% (or Ch$1,325 million) in the income before income tax of our Securities Brokerage subsidiary. The annual increase recorded in stock trading turnover (38.6% on an annual basis) and higher income from currency trading could not offset the increase in the cost base. This was mainly explained by personnel expenses rising by 5.6% on an annual basis, which is aligned with the inflation observed throughout the year.

Finally, it is worth mentioning that in 2014 we began a voluntary dissolution process for Banchile Trade Services Limited in Hong Kong. We expect to complete this process before the end of 2015.

2012 and 2013. Our subsidiaries reported income before income tax of Ch$32,802 million in 2013 as compared to the Ch$34,748 million recorded in 2012. This represented an annual decrease of 5.6%, which was primarily the consequence of:

An annual decline of 11.4% (or Ch$1,841 million) in income before income tax from our Mutual Funds subsidiary. This decline was explained by unfavorable customer preferences rather than growth in AUM. In fact, this subsidiary continued to lead the market in terms of AUM in 2013 by attaining a 21.3% market share as of December 31, 2013. This market position was supported by a 3.8% annual increase in average balances of AUM. However, the company was not been able to completely overcome the evolution of market trends, especially those associated with higher volatility in stock markets that encouraged investors to seek havens in fixed-income, which bear lower commissions than mutual funds invested in stocks. Also, organizational restructuring contributed to a temporary increase in the company s cost base.

A 9.9% (or Ch$1,211 million) annual decrease in earnings before income tax recorded by our Stock Brokerage subsidiary. In 2013, this company recorded an annual increase in stock trading turnover of approximately 5.3%, which enabled it to rank second in the local market with a 10.0% market share. This promoted higher revenues from stock and fixed-income trading in 2013. However, performance in these businesses was not high enough to offset lower results from currency trading and other line items.

The factors mentioned above were partly offset by better performance of our Insurance Brokerage subsidiary, which recorded a 37.0% (or Ch$1,313 million) annual rise in income before income tax. These higher results were associated with a 4.0% annual increase in written premiums, based on positive market trends in consumption, demand for credits and traveling.

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, 2012, 2013 and 2014 in accordance with our internal reporting policies and under IFRS:

	Year Ended December 31,		
	2012	**2013**	**2014**
		(in millions of Ch$)	
Income before income tax (Internal Reporting Policies)	Ch$ 522,001	Ch$ 593,539	Ch$ 650,608
Reconciliation to IFRS	21,808		