BANK OF CHILE
Form 20-F
April 29, 2011
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As filed with the Securities and Exchange Commission on April 29, 2011

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, 2010

Commission file number 001-15266

BANCO DE CHILE

(Exact name of Registrant as specified in its charter)

BANK OF CHILE

(Translation of Registrant s name into English)

REPUBLIC OF CHILE

(Jurisdiction of incorporation or organization)

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

(562) 637-1111

(Address of principal executive offices)

Pedro Samhan E.

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

Telephone: (562) 653-5150

Facsimile: (562) 653-5156

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

Shares of common stock: 82,551,699,423

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

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

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

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

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

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

U.S. GAAP ¨ IFRS x Other ¨

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

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

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THE MERGER

On January 1, 2008, Banco de Chile merged with Citibank Chile in a transaction in which Banco de Chile was the surviving corporate entity. As used in this annual report, unless the context otherwise requires, references to Banco de Chile relating to any date or period prior to January 1, 2008 (the effective date of the merger) are to Banco de Chile as it existed prior to the consummation of the merger, and such references relating to any date or period on or after January 1, 2008 are to Banco de Chile after the consummation of the merger.

PRESENTATION OF FINANCIAL INFORMATION

We prepare our audited consolidated financial statements in Chilean pesos and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). References in this annual report to IFRS mean IFRS as issued by the IASB.

Until and including our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2008, we prepared our audited consolidated financial statements in accordance with generally accepted accounting principles in Chile as supplemented by the applicable rules of the *Superintendencia de Bancos e Instituciones Financieras de Chile* (the Superintendency of Banks) (Chilean GAAP), with reconciliations to generally accepted accounting principles in the United States (U.S. GAAP). As required by IFRS 1 *First Time Adoption of International Financial Reporting Standards*, our financial position as of January 1, 2008 and December 31, 2008 and our results of operations for the year ended December 31, 2008 have been restated in accordance with IFRS 1 for comparative purposes. Reconciliations and description of the transition to IFRS, and the effects on assets, liabilities, equity, net income and cash flows are presented in Note 5 to our audited consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2009 filed with the Securities and Exchange Commission on June 29, 2010. Unless otherwise indicated, the financial information included in this annual report with respect to 2008, 2009 and 2010 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, 2010 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 our financial information presented under Chilean GAAP. Accordingly, readers should avoid such comparison.

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

In this annual report, references to $, U.S.$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch$ are to Chilean (see Note 2(f) to our audited consolidated financial statements as of and for the year ended December 31, 2010 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 of the *Instituto Nacional de Estadísticas* (the Chilean National Statistics Institute). As of December 31, 2010, one UF equaled Ch$21,455.55.

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in preparing our audited consolidated financial statements as of and for the year ended December 31, 2010 or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Chilean pesos based on the observed exchange rate, as described in Item 3. Key Information Selected Financial Data Exchange Rates, reported by the *Banco Central de Chile*, or the Central Bank of Chile (the Central Bank), for December 30, 2010 (the latest practicable date, as December 31, 2010 was a banking holiday in Chile). The observed exchange rate on April 25, 2011 was Ch$467.77 = U.S.$1.00. The rate reported by the Central Bank is based on the rate for the prior business day in Chile and is the exchange rate specified by the Superintendency of Banks to be used by Chilean banks in the preparation of their financial statements. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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Unless otherwise specified, all references in this annual report to total loans are to loans to customers before deduction of allowances for loan losses, and they do not include loans to banks or contingent loans. Past-due loans include, with respect to any loan, the portion of principal or interest that is 90 or more days overdue, and do not include the installments of such loan that are not overdue or that are overdue for less than 90 days, unless legal proceedings have been commenced for the entire outstanding balance according to the terms of the loan, in which case the entire loan is considered past due within 90 days of the beginning of such proceedings. 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 20.0% for each year during the period commencing six years prior to maturity), but not exceeding 50.0% of our Basic Capital; plus (ii) our voluntary allowances for loan losses (up to 1.25% of risk-weighted assets to the extent voluntary allowances exceed those that banks are required to maintain by law or regulation); minus (iii) our goodwill and unconsolidated investments in companies.

Certain figures included in this annual report and in our audited consolidated financial statements as of and for the year ended December 31, 2010 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, 2010. Certain other amounts that appear in this annual report may similarly not sum due to rounding.

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

MACRO-ECONOMIC AND MARKET DATA

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

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

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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, 2010 appearing elsewhere in this annual report. The financial information as of January 1, 2008 and for the years ended December 31, 2008, 2009 and 2010 is presented under IFRS.

Our audited consolidated financial statements have been prepared in accordance with IFRS for the years ended December 31, 2008, 2009 and 2010. In addition, our consolidated statement of financial position data as of January 1, 2008 has also been prepared in accordance with IFRS. Prior to January 1, 2008, we prepared our audited consolidated financial statements in accordance with Chilean GAAP. Reconciliations and description of the transition to IFRS, and the effects on equity and net income are presented in Note 5 to our audited consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2009 filed with the Securities and Exchange Commission on June 29, 2010.

	For the Year Ended December 31,			
	2008	2009	2010	2010
		(in millions of Ch$, except share and per share data)		(in thousands of U.S.$)[1]
IFRS:				
CONSOLIDATED STATEMENT OF INCOME DATA				
Interest revenue	Ch$ 1,659,350	Ch$ 900,407	Ch$ 1,092,003	U.S.$ 2,331,496
Interest expense	(885,263)	(222,883)	(324,506)	(692,841)
Net interest income	774,087	677,524	767,497	1,638,655
Net fees and commissions income	234,361	251,855	292,262	623,999
Net financial operating income	384,836	(138,179)	17,292	36,920
Foreign exchange transactions, net	(353,012)	220,999	63,762	136,136
Other operating income	30,937	22,190	23,584	50,353
Provisions for loan losses	(149,374)	(241,345)	(157,651)	(336,595)
Total operating expenses	(563,491)	(491,749)	(544,227)	(1,161,959)
Income attributable to associates	3,564	840	1,609	3,435
Income before income taxes	361,908	302,135	464,128	990,944
Income taxes	(35,313)	(40,389)	(46,513)	(99,309)
Net income from continued operations, net of taxes	326,595	261,746	417,615	891,635
Net income from discontinued operations, net of taxes	38,459			
Net income for the year	Ch$ 365,054	Ch$ 261,746	Ch$ 417,615	U.S.$ 891,635
Attributable to:				
Equity holders of the parent	365,052	261,744	417,614	891,633
Non-controlling interest	2	2	1	2
Earnings per share[2]	4.52	3.18	5.06	0.011
Earnings per ADS	2,708.12	1,902.42	3,035.30	6.48
Dividends per share[3]	3.36	2.72	3.50	0.007
Weighted average number of shares (in millions)	80,746.98	82,185.28	82,551.70	

(See footnotes below)

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	As of December 31,			
	2008	2009	2010	2010
	(in millions of Ch$, except share and per share data)			(in thousands of U.S.$)[1]
IFRS:				
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA				
Cash and due from banks	Ch$ 751,223	Ch$ 727,553	Ch$ 772,329	U.S.$ 1,648,972
Transactions in the course of collection	807,625	526,051	429,756	917,557
Financial assets held-for-trading	626,864	351,590	279,765	597,316
Receivables from repurchase agreements and security borrowing	75,519	79,401	82,787	176,756
Derivative instruments	902,351	565,986	488,354	1,042,667
Loans and advances to banks	321,992	448,981	349,588	746,393
Loans to customers, net	13,460,464	12,879,155	14,029,968	29,954,882
Financial assets available-for-sale	1,073,552	1,267,774	1,157,105	2,470,493
Investments in other companies	11,293	10,494	11,072	23,639
Intangible assets	94,324	88,182	87,276	186,340
Property and equipment	211,379	205,847	205,539	438,839
Investment properties	18,397	17,840	17,459	37,276
Current tax assets			3,363	7,180
Deferred tax assets, net	21,868	49,733	57,678	123,151
Other assets	251,487	282,872	304,425	649,967
Total assets	Ch$ 18,628,338	Ch$ 17,501,459	Ch$ 18,276,464	U.S.$ 39,021,428
Current accounts and other demand deposits	3,007,261	3,718,076	4,446,181	9,492,882
Transactions in the course of payment	479,789	325,056	208,750	445,695
Payables from repurchase agreements and security Lending	420,658	308,028	81,755	174,552
Saving accounts and time deposits	8,472,590	7,427,481	7,697,968	16,435,656
Derivative instruments	863,514	538,240	528,445	1,128,264
Borrowings from financial institutions	1,498,549	1,368,226	1,281,372	2,735,811
Debt issued	1,900,087	1,587,998	1,764,165	3,766,605
Other financial obligations	93,708	176,150	179,160	382,518
Currents tax liabilities	9,053	39,018		
Deferred tax liabilities, net				
Provisions	121,215	88,607	114,685	244,860
Employee benefits	45,912	43,202	55,433	118,353
Other liabilities	210,684	280,392	224,225	478,735
Total liabilities	Ch$ 17,123,020	Ch$ 15,900,474	Ch$ 16,582,139	U.S.$ 35,403,931
Total equity	1,505,318	1,600,985	1,694,325	3,617,497
Total liability and equity	Ch$ 18,628,338	Ch$ 17,501,459	Ch$ 18,276,464	U.S.$ 39,021,428

(See footnotes below)

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

(1) Translations of Chilean peso amounts into U.S. dollars are based on the observed exchange rate as reported by the Central Bank. Thus, amounts stated in U.S. dollars as of and for the fiscal year ended December 31, 2010 have been translated from Chilean pesos based on an observed exchange rate of Ch$468.37 to U.S.$1.00 as reported by the Central Bank on December 30, 2010 (the latest practicable date, as December 31, 2010 was a banking holiday in Chile).

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

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

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

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

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

(7) Total liabilities divided by bank regulatory capital.

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

Exchange Rates

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

Purchases and sales of foreign exchange not required to be conducted in the Formal Exchange Market may be carried out in the *Mercado Cambiario Informal* (the Informal Exchange Market). There are no price limits imposed on transactions executed in the Informal Exchange Market. On December 30, 2010 (the latest practicable date, as December 31 was a banking holiday in Chile), the average exchange rate in the Informal Exchange Market was Ch$468.20 per U.S.$1.00, or 0.04% lower than the observed exchange rate of Ch$468.37 per U.S.$1.00 reported by the Central Bank on the same date. The observed exchange rate for any given day equals the average exchange rate of the transactions conducted in the Formal Exchange Market on the immediately preceding banking day, as certified by the Central Bank.

The following table sets forth the annual low, high, average and period-end observed exchange rate for U.S. dollars for each year beginning in 2006, as reported by the Central Bank:

	Daily Observed Exchange Rate Ch$ per U.S.$(1)			
Year	**Low(2)**	**High(2)**	**Average(3)**	**Period End(4)**
			(in Ch$)	
2006	511.44	549.63	530.28	534.43
2007	493.14	548.67	522.47	495.82
2008	431.22	676.75	522.46	629.11
2009	491.09	643.87	559.61	506.43
2010	468.37	549.17	510.25	468.37
October 2010	475.93	494.44	484.04	491.76
November 2010	477.05	488.72	482.32	486.39
December 2010	468.37	487.87	474.78	468.37
2011 (through April 25)	466.05	499.03	479.49	467.77
January 2011	466.05	499.03	489.44	483.32
February 2011	468.94	484.14	475.69	475.63
March 2011	472.74	485.37	479.65	482.08
April 2011 (through April 25)	467.77	479.46	473.19	467.77

Source: Central Bank.

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

The observed exchange rate on April 25, 2011 was Ch$467.77 = U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

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RISK FACTORS

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

We are subject to market risks that are presented both in this subsection and in Note 40 to our audited consolidated financial statements as of and for the year ended December 31, 2010 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 experienced a significant increase, which has been primarily driven by the increase of our commercial and mortgage loans, and, to a lesser extent, by the growth in our consumer loans. Expansion of our loan portfolio (especially those related to the retail market) may expose us to a higher level of loan losses and require us to establish higher levels of allowances for loan losses. For the year ended December 31, 2010, our loan portfolio amounted to Ch$14,377,995 million as compared to the amount of Ch$13,191,256 million that we recorded as of December 31, 2009. Similarly, our allowances for loans losses increased by 11.5%, from Ch$312,101 million in 2009 to Ch$348,027 million in 2010. Accordingly, our ratio of allowances for loan losses to total loans reached 2.37% in 2009 and 2.42% in 2010.

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 past rates. The Chilean financial system s loan portfolio has shown a significant increase over the last five years, which has been prompted by a general effort of participants in the financial industry to broaden their products offering, as well as by the good conditions experienced by the Chilean economy over the last decade. However, a slowdown or negative growth rate of the Chilean economy could adversely affect the growth rate of our loan portfolio and our credit quality indicators and, accordingly, increase our required allowances for loan losses. For more information, see Item 4. Information on the Company Regulation and Supervision and Item 4. Information on the Company Selected Statistical Information.

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

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

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

Increased competition and industry consolidation may adversely affect our operations.

The Chilean market for financial services is highly competitive. We compete with other Chilean and foreign banks, with Banco del Estado de Chile, a government-owned bank, and with large department stores that

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make consumer loans to a large portion of the Chilean population, especially to low and middle-income segments. In 2002, two new privately-owned banks affiliated with Chile s largest department stores began their operations, mainly as consumer banks. In 2003, a new niche bank oriented at servicing corporations began its operations, and in 2004, two new retail banks commenced operations. The retail market (that comprises individuals and small and medium-sized companies) has become the target market of several banks, and competition with respect to these customers is continuously increasing. As a result, net interest margins (after credit risk) in these sub-segments are likely to decline over time.

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

The increase in competition within the Chilean banking industry in recent years has led to, among other things, consolidation in the industry. For example, on August 1, 2002, Banco Santiago and Banco Santander-Chile, at that time the second and third largest banks in Chile, respectively, merged to create Chile s largest bank. In 2003, Banco del Desarrollo merged with Banco Sudamericano; in 2004, Banco Security merged with Dresdner Banque Nationale de Paris; in 2005, Banco de Crédito e Inversiones merged with Banco Conosur; in 2007, Banco Itaú acquired Bank Boston s unit in Chile, while Rabobank acquired HNS Bank and Scotiabank acquired Banco del Desarrollo; in 2008, we merged with Citibank Chile and The Royal Bank of Scotland acquired ABN Amro Bank; in 2009, Banco Monex was acquired by Consorcio Group.

We expect trends of increased competition and consolidation to continue, resulting in the creation of new large financial groups. Consolidation, which can result in the creation of larger and stronger banks, may adversely affect us, including by decreasing the net interest margins we are able to generate.

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

Although we historically focused on banking for the wholesale market and high-income individuals, an increasing proportion of our retail market consists of small and medium-sized companies (approximately 6.8% of the value of our total loan portfolio as of December 31, 2010, including companies with annual sales of up to Ch$1,500 million) and, to a lesser extent, of lower-income individuals (approximately 4.4% of our total loan portfolio as of December 31, 2010, including individuals with monthly incomes that range from Ch$170,000 to Ch$400,000). Our strategy includes increasing lending and providing other services to attract additional retail customers. These customers are likely to be more severely affected by adverse developments in the Chilean economy than large corporations and high-income individuals. Consequently, in the future we may experience higher levels of past-due loans, which could result in higher allowances for loan losses. The levels of past-due loans and subsequent write-offs may be materially higher in the future, which could adversely affect us. For more information, see Item 4. Information on the Company Business Overview Principal Business Activities.

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

As of December 31, 2010, Sociedad Administradora de la Obligacion Subordinada S.A. (SAOS), our affiliate, held 34.64% of our shares as a consequence of our 1996 reorganization. This reorganization was due in part to our 1989 repurchase from the Central Bank of certain non-performing loans that we had previously sold to the Central Bank and later exchanged for subordinated debt without a fixed term. Under the terms of a repayment obligation in favor of the Central Bank that SAOS assumed to replace the Central Bank subordinated debt, SAOS may be required to sell some of our shares to the public. 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.

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In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile S.A.(SM-Chile), a holding company that controls us and SAOS, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. As a result of the capital increases agreed upon in the Extraordinary Shareholders Meeting held in May 2007 and in the Extraordinary Shareholders Meeting held in January 2011, the share dividend paid in May 2006, May 2007, June 2009 and March 2011, and the merger with Citibank Chile in January 2008, the percentage of our shares held by SAOS further decreased to 33.6%. Dividends received from us are the sole source of SAOS s revenue, which it must apply to repay this indebtedness. However, under SAOS s agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our paid-in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire accumulated deficit amount. As of March 31, 2011, SAOS maintained a surplus with the Central Bank of Ch$135,653 million, equivalent to 9.6% of our paid-in capital and reserves. As of the same date, Ch$282,303 million would have represented 20% of our paid-in capital and reserves under Chilean GAAP as required by the Superintendency of Banks. If from time to time in the future our shareholders decide to retain and capitalize all or part of our annual net income in order to finance our future growth, and to distribute stock dividends among our shareholders, the Central Bank may require us to pay the portion of the net income corresponding to shares owned by SAOS in cash to SAOS. If we distribute stock dividends and the Central Bank does not require us to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following 12 months. The shareholders of SM-Chile will have a right of first refusal with respect to that sale.

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

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

The results of our operations depend to a great extent on our net interest income, which represented 66% of our operating revenue in 2010. Changes in inflation and in nominal interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, resulting in a reduction in our net income. Inflation and interest rates are highly sensitive to many factors beyond our control, including the Central Bank s monetary policy, deregulation of the Chilean financial sector, domestic and international economic and political conditions and other factors. Any volatility in interest rates could have a material adverse effect on us, including on our financial condition and results of operations. The average inflation rate was 8.81% in 2008, 1.55% in 2009 and 1.54% in 2010. The average annual short-term nominal interest rate (based on the rate paid by Chilean financial institutions) for 90 to 360 day deposits was 7.84% in 2008, 2.34% in 2009 and 2.73% in 2010. The average long-term nominal interest rate based on the interest rate of the Central Bank s five-year bonds was 6.81% in 2008, 4.65% in 2009 and 5.54% in 2010. For more information, see Item 5. Operating and Financial Review and Prospects Operating Results Overview Inflation and Item 5. Operating and Financial Review and Prospects Operating Results Overview Interest Rates.

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

As all large financial institutions, we are exposed to many operational risks, including the risk of fraud by employees and outsiders, failure to obtain proper internal authorizations, failure to properly document transactions, equipment failures and errors by employees. Although we maintain a system of operational controls and comprehensive contingency plans, there can be no assurance that operational problems or errors will not occur and that their occurrence will not have a material adverse impact on us.

Request from Spanish Court to Chilean Judicial Authorities

On April 29, 2010, the Supreme Court of Chile denied the requests contained in a rogatory letter issued on October 26, 2009 by the Central Court of Instruction Number 5 of the National Court of Spain (*Juzgado Central de*

Instrucción No. 5 de la Audiencia Nacional de Madrid) in Madrid, Spain (the Spanish Court) to have certain actions taken (as described below) with respect to a lawsuit before the Spanish Court. The Supreme Court of Chile established that the subject matter of the investigation by the Spanish Court was currently pending before a Chilean tribunal that has jurisdiction and competence over these matters.

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

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

Risks Relating to our ADSs

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

As of April 15, 2011, LQ Inversiones Financieras S.A., a holding company beneficially owned by Quiñenco S.A., and Citigroup Chile S.A. beneficially owned approximately 60.6% of our outstanding voting rights. These principal shareholders are in a position to elect a majority of the members of our board of directors, direct our management and control substantially all matters that are to be decided by a vote of the shareholders, including fundamental corporate transactions.

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

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 2010, a daily average of 13,828 American Depositary Receipts (ADRs) were traded on the NYSE. Although our shares are traded on the Santiago Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange, the market for our shares in Chile is small and illiquid. As of December 31, 2010, approximately 12.10% of our outstanding shares were held by shareholders other than our principal shareholders, including SM-Chile and SAOS.

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

You may be unable to exercise preemptive rights.

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

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

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

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

In particular, since August 2007 to date, there has been significant volatility in worldwide financial markets due to the announcement, by several U.S. banks and financial institutions, of significant write-downs related to their exposure to mortgage-backed securities and other financial instruments. Although we and our subsidiaries are not directly exposed to the U.S. housing credit market and do not directly hold any assets related to such financial instruments, these write-downs, combined with other factors, led to a tightening in the credit markets and to a downturn in the U.S. economy, which impacted the Chilean economy towards the end of 2008 and at the beginning of 2009. We cannot assure you that any future developments in international markets could not affect us, including our results of operations and consequently the market price of our ADSs and shares.

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

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

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

We are required to withhold 35% tax from any dividend we pay to you.

ADSs owners are entitled to receive dividends on the underlying shares to the same extent as the holders of shares. Dividends received by ADSs owners will be paid net of foreign currency exchange fees and expenses of the depositary and will be subject to Chilean withholding tax of up to 35% of the dividend, which we will withhold and pay to the Chilean tax authorities. Any dividend distributions made in property (other than common stock) will be subject to the same Chilean tax rules as cash dividends. For more information, see Item 10. Additional Information Taxation Chilean Tax Considerations.

Risks Relating to Chile

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

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

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

The Chilean Government s economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could affect the dollar value of our common stock and our ADSs. The peso has been subject to large fluctuations in the past and could continue with this trend in the future. In the period from December 31, 2009 to December 31, 2010, the value of the U.S. dollar relative to the Chilean peso decreased by approximately 7.5%, as compared to the 19.5% decrease in value recorded in the period from December 31, 2008 to December 31, 2009.

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

Our results of operations may be affected by fluctuations in the exchange rates between the peso and the U.S. dollar despite our policy and Chilean regulations related to the general avoidance of material exchange rate mismatches. In order to reduce the effect of exchange rate mismatches we enter into foreign exchange derivative transactions. As of December 31, 2010, our foreign currency-denominated assets and Chilean peso-denominated assets, which contain repayment terms linked to changes in foreign currency exchange rates, exceeded our foreign currency-denominated liabilities and Chilean peso-denominated liabilities, which contain repayment terms linked to changes in foreign currency exchange rates, by Ch$1,260 million, or 0.1% of our paid-in capital and reserves.

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

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

The level of inflation generally has moderated in recent years, especially in comparison to the periods of higher inflation in the 1980s and 1990s. High levels of inflation in Chile could adversely affect the Chilean economy and, indirectly, us, our results of operations and the value of our ADSs. The annual rate of inflation (as measured by changes in the Consumer Price Index and as reported by the Chilean National Institute of Statistics) during the last five years ended December 31, 2010 and the first three months of 2011 was:

Year	**Inflation (Consumer Price Index)**
2006	2.6%
2007	7.8
2008	7.1
2009	(1.4)
2010	3.0
2011 (through March 31)	1.3%

Source: Chilean National Institute of Statistics

Although we benefit from a positive inflation rate in Chile due to the structure of our assets and liabilities (we have a significant net asset position indexed to the inflation rate), our operating results and the value of our ADSs in the future may be adversely affected by changing levels of inflation, and Chilean inflation could change significantly from current levels. For more information, see Item 5. Operating and Financial review and Prospects Inflation.

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

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

Chilean disclosure requirements for publicly listed companies differ from those in the United States in some significant aspects. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, the Chilean securities markets are not as highly regulated and closely supervised as the U.S. securities markets. For more information, see Item 16G. Corporate Governance.

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

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

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Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE BANK

Overview

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

Our legal name is Banco de Chile. We are organized as a banking corporation under the laws of Chile and were licensed by the Superintendency of Banks to operate as a commercial bank on September 17, 1996. Our principal executive offices are located at Paseo Ahumada 251, Santiago, Chile. Our telephone number is +56 (2) 637-1111 and our website is www.bancochile.cl. Our representative in the United States is Puglisi & Associates, with offices at 850 Library Avenue, Suite 204, Newark, Delaware 19711.

We are a full-service financial institution that provides, directly and indirectly through our subsidiaries and affiliates, a wide variety of credit and non-credit products and services to all segments of the Chilean financial market, providing a powerful value proposition to our customers.

We deliver our services to our customers through the following four principal business segments: (i) retail banking segment, (ii) wholesale banking segment, (iii) treasury and money market operations and (iv) operations through subsidiaries.

We provide our retail customers with credit cards, residential mortgage loans, consumer loans and automobile financing loans, as well as traditional deposit services, such as current accounts, savings accounts and time deposits. Our banking services for wholesale customers include commercial loans (including working capital lines and trade finance), foreign exchange, capital markets services, cash management and non-credit services, such as payroll and payment services, as well as a wide range of treasury, financial advisory and risk management products.

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

As of December 31, 2010, we also offered international banking services through our trade services subsidiary in Hong Kong, our representative offices in São Paulo and Beijing, and a worldwide network of correspondent banks.

In addition to our traditional banking operations, through our subsidiaries and affiliates we offer a variety of non-banking financial services including securities brokerage, mutual fund management, investment banking services, factoring, insurance brokerage, securitization, collection and sales services.

According to the Superintendency of Banks, as of December 31, 2010, we were the second largest privately-owned bank in Chile in terms of total loans with a market share of 19.2%, the largest provider of commercial loans with a market share of 20.4%, the second largest provider of consumer loans with a market share of 22.1%, the second largest privately-owned bank in terms of residential mortgage loans with a market share of 14.9% and the largest privately-owned bank in terms of current accounts and demand deposits balances with a market share of 22.8%.

As of December 31, 2010 we had:

- total assets of Ch$18,276,464 million (approximately U.S.$39,021 million);
- total loans of Ch$14,377,995 million (approximately U.S.$30,698 million);

total deposits of Ch$12,144,149 million (approximately U.S.$25,929 million) of which Ch$4,446,181 million (approximately U.S.$9,493 million) correspond to current account and demand deposits; and

equity (including net income, non-controlling interest and provisions for minimum dividends) of Ch$1,694,325 million (approximately U.S.$3,617 million).

As of December 31, 2010, we had approximately 14,000 employees and delivered financial products and services through a nationwide distribution network of 422 branches, and 1,976 ATMs, that are part of a larger ATM network operated by Redbanc S.A. (a company owned by us and 12 other private sector financial institutions) that comprises more than 6,141 ATMs.

History

We were founded in 1893 as a result of the merger of Banco Nacional de Chile, Banco Agrícola and Banco de Valparaíso, which created the largest privately held bank in Chile. We have played an important role in the economic history of Chile. Until the creation of the Central Bank in 1926 and before the enactment of the General Banking Law, we were the main stabilization agent of the Chilean banking system, a role that is now carried out by the Central Bank. Beginning in the early 1970s, the Chilean Government assumed control of a majority of Chilean banks, and all but one of the foreign banks that were operating at that time closed their branches and offices in Chile. Throughout this era, we remained privately owned, with the exception of a portion of our shares owned by the Chilean Government that were sold to private investors in 1975. We developed a well-recognized name in Chile and expanded our operations in foreign markets, where we developed an extensive network of correspondent banks. In the early twentieth century, we established a representative office in London, which we maintained until 1985, when our European operations were moved to Frankfurt. The Frankfurt office was closed in 2000, when our foreign operations were centralized at the New York branch. In 1987 and 1988, we established four subsidiaries to provide the full range of financial products and services permitted by the General Banking Law, and in 1999, we established our insurance brokerage and factoring subsidiaries. According to our estimations, we remained the largest private bank in Chile until 1996. During the early 2000s, the Chilean banking industry was marked by intense merger and acquisition activity. In 2002, we merged with Banco de A. Edwards, which allowed us to expand our business to new customer segments. In 2008, we sold our U.S. branches to Citigroup in connection with our merger with Citibank Chile, carried out during the same year. As a result of these consolidations, we currently operate a network of three brands, consisting of Banco de Chile (which is present in the whole of Chile), Banco Edwards-Citi (which primarily operates in Santiago) and Banco CrediChile (which is focused on consumer loans and debit accounts). In 2009, we were recognized by ICARE (Chilean Institute of Enterprise Rational Management), as The Enterprise of 2008 in recognition of our role in the Chilean economy and banking system.

Merger with Banco de A. Edwards

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

Merger with Citibank Chile

On December 27, 2007, our shareholders approved our merger with Citibank Chile, which became effective on January 1, 2008. 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.

Our partnership with Citigroup Inc., an internationally well-known brand name, enabled us to broaden the scope of financial services that we offer to our customers through the addition of global financial services and other benefits to our local retail customers conducting transactions outside Chile. Similarily, this alliance enabled us to enhance our relationship with multinational companies operating in Chile. As a result of this partnership, we entered into a global connectivity agreement (the Global Connectivity Agreement), which has supported the creation of (i) an international personal banking area, responsible for optimizing the access to financial services outside of Chile to our local retail customers, (ii) a global transactional services area, 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 area, responsible for providing financial advisory services and access to global capital markets to our Chilean corporate customers.

We concluded the merger process at the end of 2008 with the integration of Corporación Financiera Atlas S.A. (Citibank Chile s consumer division) with our consumer division (CrediChile), which allowed us to nearly double our customer base in consumer finance.

Technological Projects

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

During 2007, we achieved several milestones. We completed the migration of current accounts, lines of credit and sight accounts into a new module as part of the new core banking system. In addition, the CRM system and the teller solution were expanded to all of our networks. We also implemented a new anti-money laundering program that increases the quality and efficiency of operational follow-up and alerts.

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

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

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

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

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single shareholder held a controlling stake in us. In 1987, the Superintendency of Banks returned the control and administration over us to our shareholders.

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

The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch$1,345,303 million required that a certain percentage of our income before provisions for the subordinated debt be applied to repay this obligation. The Central Bank subordinated debt did not have a fixed maturity, and payments were made only to the extent that we earned income before provisions for the subordinated debt. In 1993 we applied 72.9% of our income before provisions to repay the Central Bank subordinated debt. In 1994 we applied 67.6%, and in 1995 we applied 65.8% of our income before provisions to repay the Central Bank subordinated debt.

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

This Central Bank indebtedness, for which SAOS is solely responsible and for which there is no recourse to us or SM-Chile, was equal to the unpaid principal of the Central Bank subordinated debt that it replaced but had terms that differed in some aspects. The most important of these included a rescheduling of the debt for a term of 40 years providing for equal annual installments and a pledge of our shares as collateral for such debt. The Central Bank indebtedness bears interest at a rate of 5.0% per year and is denominated in UF. See Item 5. Operating and Financial Review and Prospects Operating Results Overview Inflation UF-Denominated Assets and Liabilities for a further explanation of UF.

In exchange for assuming the Central Bank indebtedness, SAOS received from SM-Chile, a holding company that beneficially owns SAOS and us, 63.6% of our shares as collateral for this indebtedness. As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. As a result of the capital increases agreed upon in the Extraordinary Shareholders Meeting held in May 2007 and in the Extraordinary Shareholders Meeting held in January 2011, the share dividend paid in May 2006, May 2007, June 2009 and March 2011, and the merger with Citibank Chile in January 2008, the percentage of our shares held by SAOS further decreased to 33.6%. Dividends received from us are the sole source of SAOS s revenue, which it must apply to repay this indebtedness. However, under SAOS s agreement with the Central Bank, we have no obligation to distribute dividends to our shareholders. To the extent distributed dividends are not sufficient to pay the amount due on this indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our paid-in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock owned by SAOS to pay the entire accumulated deficit amount. As of March 31, 2011, SAOS maintained surplus with the Central Bank of Ch$135,653 million, equivalent to 9.6% of our paid-in capital and reserves. As of the same date, Ch$282,303 million would have represented 20% of our paid-in capital and reserves under Chilean GAAP as required by the Superintendency of Banks. 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, 2010 the outstanding subordinated debt balance held by SAOS amounted to Ch$876,664 million. SAOS paid to the Central Bank a total of Ch$98,224 million during 2008, Ch$97,973 million

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during 2009 and Ch$101,972 million during 2010, exceeding in each of these years the required minimum annual payment.

As of December 31, 2010, the major shareholder of SM-Chile was LQ Inversiones Financieras S.A. (a subsidiary of Quiñenco S.A.), which owned, directly and indirectly, 58.23% of SM-Chile s total shares. As of the same date, our major shareholders were SAOS, LQ Inversiones Financieras S.A. and SM-Chile, each having,directly or indirectly, a participation of 34.64%, 32.70% and 14.70% in our total common stock, respectively.

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

Capital Expenditures

The following table sets forth our capital expenditures for the years ended December 31, 2008, 2009 and 2010:

	For the Year Ended December 31,		
	2008	2009	2010
		(in millions of Ch$)	
Computer equipment	Ch$ 5,440	Ch$ 7,161	Ch$ 13,072
Furniture, machinery and installations	9,520	4,540	8,658
Real estate	1,138	3,245	5,387
Vehicles	467	379	362
Subtotal	16,565	15,325	27,479
Software	8,261	7,529	15,027
Total	Ch$ 24,826	Ch$ 22,854	Ch$ 42,506

Our budget for capital expenditures in 2011 is Ch$53,934 million, 69% of which is allocated to information technology expenditures and 31% is allocated to infrastructure projects. This level of capital expenditures is in line with our strategic aim of improving our efficiency and proximity to our customers, particularly our retail banking customers.

Among the budgeted information technology expenditures, 90% of them are related to (i) improvements to our main infrastructure, (ii) final stages of projects in development and (iii) renewal of some internet-based customer services.

Our 2011 budget for infrastructure expenditures includes disbursements associated with: (i) the opening of new branches in line with our goal to grow our retail banking segment, (ii) renovation and relocation of some of our existing branches and (iii) general maintenance investments.

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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 main peers in the Chilean financial system, 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 been operating in Chile for over a hundred years under the Banco de Chile brand name and over time 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 have associated us with quality and reliability within the Chilean financial system, as demonstrated in various polls conducted by well-known market research companies. According to market research conducted by Adimark GFK (part of the GFK Group) during the fourth quarter of 2010, we were the most recognized brand among financial institutions operating in Chile. Also, a poll conducted by Merco (a corporate reputation monitor from Spain) in August 2010 placed Banco de Chile as the seventh most admired company in Chile and the most admired company among all local financial institutions. Similarly, a study conducted by Price Waterhouse Coopers Chile and Diario Financiero in 2010, ranked Banco de Chile among the ten most admired companies 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 and sound financial institution within Chile, and allowed us to gain international recognition among customers and investors.

We also believe that our strong corporate image is further strengthened by our commitment to social responsibility, which includes supporting the Teleton Foundation (a non-governmental organization dedicated to assisting and treating Chilean disabled children), our partnership with institutions dedicated to improving the quality of Chilean education, our commitment to support the development of sports in Chile, as well as different initiatives intended to strengthen our role in, and contribution to, the Chilean society.

Nationwide Branch Network and Business-Oriented Service Models

We are present in all regions of Chile and strive to be accessible to every single Chilean customer through our broad branch network. As of December 31, 2010, we had a nationwide branch network of 422 branches that comprise 221 branches under our Banco de Chile brand name, 36 branches under our Banco Edwards|Citi brand name and 165 branches under our Banco CrediChile brand name. We believe that our broad branch network is a suitable means of reinforcing our proximity to the customers and, therefore, we are constantly seeking profitable new locations to open new branches throughout Chile. During 2010, we carried out the Bicentennial Plan to open new branches and, by December 31, 2010, we had opened 22 new locations. During 2011, we expect to open 30 additional branches throughout Chile with a key focus of strengthening our presence in cities outside of Santiago.

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

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

Robust Customer Base and Diversified Products and Services Portfolio

We believe that we have one of the largest customer bases among the financial institutions operating in Chile and we provide one of the most diversified offerings of products and services to our customers. As of December 31, 2010, we had approximately 1,600,000 customers, which include: 941,000 borrowers, 580,000 current accounts, nearly 130,000 time deposits and approximately 1,150,000 issued credit cards. In response to the diverse needs of our customers, we have become a full-service financial group that operates under a multibrand approach, offering a wide range of traditional banking products and services to our customers that are complemented by the specialized financial services provided by our subsidiaries, including securities brokerage, mutual funds, securitization, factoring, financial advisory, insurance brokerage and other financial services. In addition, our recent strategic alliance with Citigroup Inc. and the Global Connectivity Agreement have allowed us to broaden our service offerings by adding a comprehensive portfolio of international financial services that previously we could only partially provide.

We believe that our robust customer base is both an essential driver of our business that leads us to develop new products and services demanded by our customers, and a valuable asset that enables us to improve the cross-selling of our products and services.

Highly Competitive Funding Structure

We believe that we have a cost-effective and highly competitive funding structure based on our leading market position in current accounts and demand deposits that has not been replicated by other financial institutions operating in Chile. According to the Superintendency of Banks, as of December 31, 2010, we held 22.8% of the balances of demand deposits and current accounts in the Chilean financial system. As of the same date, current accounts and demand deposits accounted for 26.0% of our total funding structure as compared to the 18.3% reported by the Chilean financial system as a whole (excluding Banco de Chile).

Accordingly, we believe that our funding structure provides us with a cost advantage over our competitors (which use a higher proportion of interest bearing liabilities), as current accounts and demand deposits are the cheapest funding source available in Chile, since they are non-interest bearing liabilities. This is particularly true to the extent that expected economic growth for the upcoming years results in higher nominal interest rates over the next few years.

We are also constantly trying to diversify our funding structure. In fact, during 2010 we successfully accessed international markets by obtaining a loan of U.S.$100 million from a leading Chinese bank, while we entered into a syndicated credit of U.S.$200 million from a group of Asian financial institutions in the first months of 2011.

Superior Asset Quality

We believe we are the Chilean financial institution with the highest credit quality in the Chilean financial system, which we believe is the result of our well-known prudent risk management approach and our accurate credit risk models that have enabled us to maintain relatively low levels of past-due loans and high coverage indicators over the last few years.

According to the Superintendency of Banks, as of December 31, 2010, we had a delinquency ratio (past-due loans as a percentage of total loans) of 0.51%, which is well below the delinquency ratio of 1.45% reported by the Chilean financial system (excluding Banco de Chile) as of the same date. Additionally, we maintain the highest coverage ratio (allowances for loan losses to total past-due loans) in the Chilean financial system, which as of December 31, 2010 was equal to 4.9x as compared to 1.7x for the Chilean financial system (excluding Banco de Chile).

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Attractive Risk-Return Relationship

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

According to information published by the Superintendency of Banks, as of December 31, 2010, we recorded a return-on-equity (calculated as net income divided by the year-end equity balance) of 27.0%, the highest in the Chilean financial system. Similarly, as of the same date we ranked second in the Chilean banking industry in terms of return-on-average-equity (calculated as net income divided by the average equity) with a ratio of 24.7% and second in terms of return-on-average-assets with a ratio of 2.2%, above the 1.4% for the Chilean financial system (excluding Banco de Chile).

In terms of credit risk, as published by the Superintendency of Banks, as of December 31, 2010 our ratio of provisions for loan losses to average loans was 1.23%, which is below the 1.28% recorded by the Chilean financial system (excluding Banco de Chile) as of the same date.

Leading Market Position

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

	As of December 31, 2010	
	Market Share	**Market Position**
Commercial Loans	20.4%	1st
Consumer Finance Loans(1)	26.6%	1st
Current Accounts and Demand Deposits Balances	22.8%	1st
Mutual Funds (Assets under management)	23.5%	1st
Stock Brokerage Fees(2)	21.3%	1st
Consolidated Fees and Commissions Income	25.5%	1st

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

(1) Only loans granted by consumer divisions of banks (CrediChile, Banefe, Banco Nova and Banco Condell) and banks specialized in these segments (Banco Falabella, Banco Paris and Banco Ripley). Does not include Banco Estado.
(2) As of September 30, 2010, the latest available information as published by the Chilean Securities Commission.

We have been traditionally recognized as a financial institution with strong presence in the corporate segment and have long-term relationships with the major local and multinational companies that operate in Chile. We have been able to maintain this leading position by continuously improving our products and services that we have complemented over time with the development and implementation of comprehensive service models that allow us to successfully serve our customers needs.

In the retail banking segment, our Consumer Finance Division (Banco CrediChile) has become the largest provider of consumer loans among the Chilean banks consumer divisions, based on the broad portfolio of services that we have designed for low- and middle-income individuals, as well as our recent merger with Citibank Chile that allowed us to nearly double our market share in this segment. Similarly, through our Commercial Division, we lead the market in services offered to high-income individuals for whom we have developed an attractive portfolio of financial services, including a full range of wealth management services through some of our subsidiaries. This broad variety of services has also allowed us to lead the Chilean market in terms of income from fees and commissions.

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

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We believe that our leadership position and our level of knowledge of the Chilean customer s needs reinforce our competitive strengths.

Business Strategy

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

Since the performance of our business depends on many factors, we cannot assure you that we will be able to implement our strategies successfully nor that we will be able to reach our strategic goals. For a discussion of certain risks applicable to our operations, industry and country we operate in, see Item 3. Key Information Risk Factors.

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

Maintain Profitable Growth

Our business model is focused on those lines of business that add significant economic value to our shareholders, have appropriate levels of risk and allow us to strengthen long-term relationships with our customers. We seek sustained growth, particularly in higher-margin segments and business areas that show strong growth potential. Accordingly, during 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.

In our retail banking segment, we expect to grow our business based on a comprehensive value offering that comprises the development of tailor-made service models as a result of a precise segmentation. As a consequence, we expect to expand our customer base and branch network, enhance our Small and Medium Enterprises Division s loan portfolio, reinforce certain lending products that enable us to consolidate long-term relationships with our customers, especially those associated with payment channels (such as credit cards) and residential mortgage loans. During 2010, we created a new Credit and Debit Card Division, which is responsible for supporting our commercial divisions in defining marketing plans and strategies intended to increase the use of our credit cards and promote customer loyalty through those products. Also, our aim is to continue being an innovative bank within the Chilean financial system and therefore we expect to increase the use of information technologies in our commercial efforts, as part of our value offering. Similarly, in our Consumer Finance Division we aim to consolidate our presence in products such as payroll loans.

This strategy intends to take advantage of the retail banking segment s growth potential. Despite the fact that Chile s per capita GDP has tripled over the last 20 years, the level of access of population to banking credit 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. Additionally, we believe we can further grow this segment as, according to the Superintendency of Banks, as of December 31, 2010 we had a 22.1% market share in consumer loans (5.6% behind the market leader) and a 14.9% market share in residential mortgage loans (8.8% behind the market leader).

In our wholesale banking segment (large companies and corporations), we aim to maintain our leading market position in terms of loans and focus on achieving higher profitability by: improving our offering of cash management services, increasing the penetration of products designed by our Treasury, enhancing our presence in certain lending products such as leasing and factoring, and promoting international businesses by taking advantage of the commercial synergies related to both our merger with Citibank Chile (such as the Global Connectivity

Agreement with Citigroup) and the specialized financial services offered by our subsidiaries, such as securities brokerage, mutual funds management and financial advisory.

We believe that we have already achieved significant improvements in these matters. According to our management information system, we have increased our cross-sell indicator of non-lending revenues to lending revenues from 1.2 times in 2007 to 1.4 times in 2010. As a result of the above-mentioned initiatives, we expect to continue enhancing our cross-selling strategy and the wholesale segment s profitability.

In addition to our traditional lending activities, we have developed other financial activities in order to diversify our sources of revenues and continue to grow profitably, such as foreign exchange derivative transactions and fee-based products and services. As a result, our consolidated income from fees and other services has become an important source of revenue in recent years, reaching Ch$251,855 million (or 24.3% of our total operating revenues) in 2009 and Ch$292,262 million (or 25.1% of our total operating revenues) in 2010. We aim to continue increasing our net fees and commissions income by developing new products and services and by reinforcing the cross-selling of these products and services in the retail and wholesale segments that we currently serve.

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

Improve Operating Efficiency

We believe that a controlled operating cost structure will become increasingly important in order to compete profitably within the Chilean financial market and, as a result, we strive to increase our efficiency levels by increasing productivity and reducing costs. To achieve this goal, we have invested in information technology and development of simpler, more manageable, secure and modern business processes and platforms to achieve faster response times and higher productivity.

In the last three years, we have invested approximately Ch$56,500 million (approximately Ch$13,700 million, Ch$14,900 million and Ch$28,100 million in 2008, 2009 and 2010, respectively) in technology, mainly in software and computer equipment, as we believe this is one of the best means to improve our service quality and operating efficiency. Similarly, we are developing internal processes intended to reduce our costs and expenses in order to increase our operating efficiency. During 2010, we prioritized the start-up of our data processing center and the upgrade of our contingency site, which should allow us to increase our operational productivity while reducing the operational risks.

As a result, we have significantly improved our efficiency ratio since 2008. During 2008, 2009 and 2010, our consolidated operating expenses represented respectively 52.6%, 47.5% and 46.7% of our consolidated operating revenues. We believe this improvement is partially attributable to our success in integrating Citibank Chile s operations into our business, as the merger has generated synergies in several of our business segments.

We expect to continue improving our efficiency ratio in the coming years by expanding the volume of our business (generating economies of scale), developing economies of scope by incorporating new financially related businesses, reinforcing the productivity of our branch network, enhancing our remote transactional channels, improving our credit processes, developing a higher level of automation in our internal processes and reinforcing our cost controls and monitoring procedures.

Achieve High Standards of Service Quality

We are committed to providing high quality service to all of our customers in order to increase customer loyalty. Consistent with this view, in 2009 we created a new division responsible for developing our customer excellence strategies and measuring the quality of our services.

Additionally, in order to achieve our strategic goals in 2009 and 2010, we have developed and implemented different initiatives, such as: (i) identifying new customer segments and sub-segments in the retail and wholesale segments, (ii) implementing new value propositions with an emphasis on service excellence that include new service models, (iii) enhancing our service quality through an ongoing plan that identifies the key behaviors of our customers and developing a service protocol for different kinds of clients, (iv) significantly improving our time for

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delivery of products, (v) reinforcing our Internet channel and business units in order to increase information processing capacity, allowing us to manage larger volumes of business with improved response time, (vi) developing internal quality measurements for functional and support units and (vii) developing a full scale productivity improvement in all retail branches.

As a complement to the above-mentioned, we have implemented different metrics to evaluate our performance in relation to service quality. During 2011, we expect to continue benchmarking our competitors service performance and incorporate best practices from other markets, industries and countries.

Maintain Excellence in Human Resources Management

In order to ensure our long-term profitability, efficiency and service quality, we believe that it is necessary to have a highly-qualified and motivated workforce. In this regard, we strive to remain as one of the most respected employers in Chile by developing a team committed to excellence and our corporate goals and values. We recently carried out a comprehensive talent inventory review in order to suitably identify our staff s skills while defining the correct policies in order to optimize the management of our human resources.

We seek to establish a distinctive culture among our employees by promoting (i) a clear focus on the customer, (ii) confidence and leadership, (iii) meritocracy and high performance, (iv) collaboration and teamwork, (v) accountability and empowerment and (vi) innovation and continuous improvement.

Ownership Structure

The following diagram shows the ownership structure as of April 15, 2011:

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Principal Business Activities

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

The information relating to our business segments, which is presented in this section, has been prepared in accordance with our internal reporting policies. See Item 5. Operating and Financial Review and Prospects Results of Operations for the Years Ended December 31, 2008, 2009 and 2010 Business Segments and Item 5. Operating and Financial Review and Prospects Results of Operations for the Years Ended December 31, 2008, 2009 and 2010 Summary of Differences between Internal Reporting Policies and IFRS for a description of the most significant differences between our internal reporting policies and IFRS.

The following table sets forth information on the composition of our loan portfolio and our consolidated net income before tax in accordance with our internal reporting policies for the year ended December 31, 2010, allocated among our principal business segments:

	Total Loans		Consolidated Net Income(1) (2) (3)
	For the Year Ended December 31, 2010 (in millions of Ch$, except percentages)		
BANK S INTERNAL REPORTING POLICIES:			
Retail market	Ch$ 6,877,716	47.9%	Ch$ 182,114
Wholesale market	7,135,093	49.7%	107,826
Treasury and money market operations			64,862
Operations through subsidiaries	353,020	2.4%	62,237
Total	Ch$ 14,365,829	100.0%	Ch$ 417,039

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

(2) The results associated with our gap management (interest rate mismatches) have been allocated to the business segments by considering the amount of loans and demand deposits managed by each segment.

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

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

	For the Year Ended December 31,		
	2008	2009	2010
		(in millions of Ch$)	
BANK S INTERNAL REPORTING POLICIES:			
Retail market	Ch$ 561,572	Ch$ 588,373	Ch$ 672,667
Wholesale market	305,835	259,027	281,481
Treasury and money market operations	88,314	60,072	77,723
Operations through subsidiaries	117,881	131,097	150,312
Other (adjustments and eliminations)	38,580	(12,307)	(12,838)
Total Operating Revenues	Ch$ 1,112,182	Ch$ 1,026,262	Ch$ 1,169,345

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

	For the Year Ended December 31,		
	2008	2009	2010
		(in millions of Ch$)	
BANK S INTERNAL REPORTING POLICIES:			
Chile	Ch$ 1,119,014	Ch$ 1,038,498	Ch$ 1,182,093
Banking operations	962,711	907,472	1,031,871
Operations through subsidiaries	156,303	131,026	150,222
Foreign operations	158	71	90
Operations through subsidiaries	158	71	90
Total Operating Revenues	Ch$ 1,119,172	Ch$ 1,038,569	Ch$ 1,182,183

Retail Market

Our retail banking segment serves the financial needs of individuals and small and medium-sized companies through our branch network. As of December 31, 2010, we had a total of 422 branches, of which 257 operate under our Banco de Chile and Banco Edwards Citi brand names and 165 operate under the Banco CrediChile brand name.

As of December 31, 2010, our retail segment represented 47.9% of our total loans and accounted for Ch$182,114 million of our net income before taxes for the year ended December 31, 2010.

In terms of composition, as set forth in the following table prepared in accordance with our internal reporting policies, our retail market business segment s loan portfolio as of December 31, 2010 was principally focused on residential mortgage loans, which represented a 42.5% of the segment s portfolio. The remaining loans were distributed between consumer credits (31.2%) and commercial credits (26.3%).

	As of December 31, 2010 (in millions of Ch$, except percentages)

BANK S INTERNAL REPORTING POLICIES:		
Commercial loans	Ch$ 1,812,053	26.3%
Residential mortgage loans	2,919,681	42.5
Consumer loans	2,145,982	31.2
Total	Ch$ 6,877,716	100.0%

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

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Commercial Division

The Commercial Division is responsible for offering financial services to individuals with monthly incomes over Ch$400,000 (or Ch$4.8 million per year) and to small and medium-sized companies with annual sales of up to approximately Ch$1,500 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 257 branches as of December 31, 2010.

The strategy followed in the Commercial Division is mainly focused on sub-segmentation, multi-brand positioning, cross-selling of lending and non-lending products and service quality based on customized service models for specific customer needs. Incentive systems have been increasingly incorporated into the commercial targets differentiated by segment, which have enabled us to reduce response times to our customers and a more efficient use of allocated resources. In addition, the Commercial Division s operations counts on the support of specialized call centers and internet banking services, along with a wide range of management tools that allow us to measure returns, the performance of cross-sold products and the effectiveness of marketing campaigns.

As of December 31, 2010, the Commercial Division served 721,829 individual customers (hereafter customer should be understood as the sum of individuals or companies that hold at least a current account, a credit or a sight account) and 63,015 small- and medium-sized Chilean companies. This customer base resulted in total loans to 538,176 debtors, which includes 75,371 residential loans, 133,073 commercial loans, 313,858 utilized lines of credit, 276,533 installment loans and 716,573 credit card accounts. As of the same date, we maintained 577,986 current accounts, 156,530 savings accounts and 108,577 time deposits.

As of December 31, 2010, loans originated by our Commercial Division represented 43.5% of our total loans. The following table sets forth the composition of the Commercial Division s loan portfolio in accordance with our internal reporting policies, as of December 31, 2010:

	As of December 31, 2010 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Commercial Loans		
Commercial credits	Ch$ 1,569,832	25.1%
Leasing contracts	154,964	2.5
Other loans	84,178	1.4
Total Commercial Loans	1,808,974	29.0
Residential Mortgage Loans	2,867,550	45.9
Consumer Loans		
Installment loans	950,462	15.2
Credit cards	391,716	6.3
Lines of credit	228,313	3.6
Total Consumer Loans	1,570,491	25.1
Total	Ch$ 6,247,015	100.0%

We offer a variety of financial services to individuals and small and medium-sized companies, directly or indirectly through our subsidiaries and affiliates, such as current accounts, automatic bill payment, debit cards, credit cards, revolving credit lines, housing loans, consumer loans, commercial loans, mortgage loans, leasing agreements, factoring services, investment management, support in import and export transactions, collection services, payments and collections, insurance brokerage (which handles life, home and vehicle insurance), savings instruments, mutual funds, stock trading and foreign currency services.

Installment Loans

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

As of December 31, 2010, we had Ch$950,462 million in installment loans originated by the Commercial Division, which accounted for 44.3% of the retail market business segment s consumer loans. A majority of installment loans are denominated in Chilean pesos and are payable monthly.

Residential Mortgage Loans

As of December 31, 2010, we had outstanding residential mortgage loans to individuals and small- and medium-sized companies of Ch$2,867,550 million, which represented 41.7% of the retail market business segment s total loans and 20.0% of our total loans. A feature of our mortgage loans to individuals and small- and medium-sized companies is that mortgaged property typically secures all of a mortgagor s credit with us, including credit card and other loans.

Our residential mortgage loans generally have maturities that range between five and thirty years and are denominated in UF. To reduce our exposure to interest rate fluctuations and inflation with respect to our residential loan portfolio, a portion of these residential loans is funded through the issuance of mortgage finance bonds, which are recourse obligations with payment terms that are matched to the residential loans and which bear a real market interest rate plus a fixed spread over the variation rate of the UF. Chilean banking regulation permits to finance up to a 100% of a residential mortgage loan with mortgage finance bonds, based on the purchase price of the property securing the loan or the appraised value of such property. In addition, we generally require that the monthly payments on a residential mortgage loan not exceed 25% of the borrower s household after-tax monthly income, when the customer belongs to the low-income population segment. However that limit can be adjusted for middle and high-income population segments.

As an alternative to finance mortgage loans with mortgage bonds, we have promoted the expansion of *Mutuos Hipotecarios*, a mortgage-lending product, which is not financed by mortgage finance bonds, but instead through our general funds, especially long-term bonds. Accordingly, *Mutuos Hipotecarios* allow customers to finance up to 100% of the purchase price or the appraised value of the property, whichever is lower, instead of the 75% that a standard mortgage would allow.

According to information published by the Superintendency of Banks, as of December 31, 2010 we were Chile s second largest privately-owned bank in terms of amount of mortgage loans, accounting for approximately 19.5% of mortgage loans made by Chilean privately-owned banks.

Credit Cards

As of December 31, 2010, we issued Visa, MasterCard and Diners credit cards, including both individual and corporate cards. In addition to traditional credit cards, our portfolio also includes co-branded cards (e.g., Travel Club, Global Pass, and Advantage, among others), and 43 affinity card groups, most of which are associated with our co-branded programs.

Two Chilean companies that are affiliated with us in this market, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2010, Transbank S.A. had fifteen shareholders and Nexus S.A. had seven shareholders, all of which were banks. As of December 31, 2010, our equity ownership in Transbank S.A. was 26.16% and our equity ownership in Nexus S.A. was 25.81%.

As of December 31, 2010, we had 716,573 valid credit card accounts, with 894,943 credit cards to individuals and small- and medium-sized companies. Total charges on our credit cards during 2010 amounted to Ch$1,439,036 million, with Ch$1,317,027 million corresponding to purchases and service payments in Chile and abroad and Ch$122,009 million corresponding to cash advances both within Chile and abroad. These amounts (which do not include the charges associated with our CrediChile s credit cards) accounted for 28.7% of the total charge volume of bank credit cards issued in Chile for 2010, according to monthly statistics provided by Transbank S.A.

As of December 31, 2010, our credit card loans to individuals and small- and medium-sized companies amounted to Ch$391,716 million and represented 18.3% of our retail market business segment s consumer loans.

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We believe that the Chilean market for credit cards has a high growth potential, especially among lower- and middle-income customer segments, as the average merchant fees should continue to decline due to increasing competition from other banks that operate in Chile and the large department stores and other non-banking businesses that are involved in the issuance of credit cards.

Commercial Credits

Our Commercial Division s commercial loans, which mainly consist of project financing and working capital loans, are denominated in Chilean pesos, UF and U.S. dollars, may have fixed or variable rates of interest and generally mature between one and three months. As of December 31, 2010, our Commercial Division had outstanding commercial loans of Ch$1,569,832 million, representing 22.8% of the retail market business segment s total loans and 10.9% of our total loans as of the same date.

Leasing Contracts

Leasing contracts are financing leases for capital equipment and property. Leasing contracts may have fixed or variable rates of interest and generally mature between one and five years for equipment and between five and twenty years for property. Most of these contracts are denominated in UF. As of December 31, 2010, our Commercial Division had outstanding leasing contracts of Ch$154,964 million, representing 2.3% of the retail market business segment s total loans and 1.1% of our total loans as of the same date.

Non-Residential Mortgage Loans

Non-residential mortgage loans granted to individuals, and small- and medium-sized companies are loans made to finance offices, land, facilities and other real estate. Non-residential mortgage loans are denominated in UF and generally have maturities between eight and twelve years. As of December 31, 2010, our Commercial Division had non-residential mortgage loans of approximately Ch$104,945 million, representing 1.5% of the retail market business segment s total loans and 0.7% of our total loans as of the same date.

Debit Cards

We offer different types of debit cards to our customers. Depending on their specifications, these cards can be used for banking transactions at ATMs that operate on the local network, such as Redbanc, the Visa International PLUS network, the local network of merchants participating in the local Redcompra debit program or the international network of merchants associated with the Electron program. We have given different names to these debit cards depending on the card s specific functions and the link between the brand and target market to which they serve. During 2010, the following cards were in operation: *Chilecard*, *Chilecard Plus*, *Chilecard Electron*, *Chilecard Empresas*, *Banjoven*, *Cheque Electrónico*, *Multiedwards, Cuenta Directa*, *Cuenta Fácil*, *Cuenta Familiar* and *Citicard*. As of December 31, 2010, according to monthly statistics provided by Transbank S.A., we had a 21.3% market share of debit card purchase transactions (not including Banco CrediChile s debit cards, as those are reported under our Consumer Finance Division), which corresponds to approximately 38.6 million purchases performed throughout the year.

Lines of Credit

We had approximately 477,007 approved lines of credit to individual customers, and small- and medium-sized companies as of December 31, 2010 and outstanding advances to 313,858 individual customers, and small-and medium sized companies that totaled Ch$228,313 million, or 3.3% of the retail market business segment s total loans.

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

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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 total current accounts of the Commercial Division are interest-bearing), and savings accounts are denominated in UF and bear a fixed-interest rate. Time deposits are denominated in Chilean pesos, UF and U.S. dollars and most bear interest at a fixed rate with terms that range between thirty to 360 days.

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

Consumer Finance Division (Banco CrediChile)

The Consumer Finance Division provides loans and other financial services to low and middle-income segments (individuals whose monthly incomes range from Ch$170,000 to Ch$400,000), which historically have only been partially served by financial institutions. Also, our Consumer Finance Division serves micro-businesses. Banco CrediChile represents an alternative delivery channel for our products and services to these segments, maintaining a separate brand supported by a network of 165 Banco CrediChile branches as of December 31, 2010. Banco CrediChile was established in 2004 from what was formerly our consumer banking division. During 2008, the business of Banco CrediChile was merged with the consumer division of Citibank Chile (Corporación Financiera Atlas S.A.) as a consequence of the merger with Citibank Chile.

Banco CrediChile offers its customers a variety of banking products, such as consumer loans, credit cards, automobile financing loans, residential mortgage loans and a special demand deposit account (see Bancuenta) targeted at low-income customers. As of December 31, 2010, Banco CrediChile had approximately 766,372 customers and total loans outstanding that amounted to Ch$630,701 million, representing 4.4% of our total loans outstanding as of the same date.

The following table sets forth the composition of Banco CrediChile s loan portfolio in accordance with our internal reporting policies, as of December 31, 2010:

	As of December 31, 2010 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Consumer loans		
Installment loans	Ch$ 527,799	83.7%
Credit cards	47,334	7.5
Lines of credit	358	0.0
Total consumer loans	575,491	91.2
Residential mortgage loans	52,131	8.3
Commercial loans	3,079	0.5
Total	Ch$ 630,701	100.0%

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

The Superintendency of Banks requires greater allowances for loan losses for those banks with low credit classifications. This is the case for Banco CrediChile, which employs a specific credit scoring system, developed by

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

Consumer Lending

Banco CrediChile provides short to medium-term consumer loans and credit card services. As of December 31, 2010, Banco CrediChile had approximately 373,329 consumer loans that totaled Ch$527,799 million. As of the same date, Banco CrediChile customers had 241,863 valid credit card accounts, with outstanding balances of Ch$47,334 million.

Bancuenta

Banco CrediChile offers its customers Bancuenta, a basic deposit product that is flexible and easy to use. This product allows us to tap into a section of the consumer market that previously was not participating in the banking system. The Bancuenta account is a non-interest bearing demand deposit account without checking privileges targeted at customers who want a secure and comfortable means of managing and accessing their money. Customers may use an ATM card linked to their Bancuenta account (which may include a revolving line of credit) to make deposits or automatic payments to other Banco CrediChile accounts through a network of 6,141 ATMs available through the Redbanc network as of December 31, 2010.

As of December 31, 2010 Banco CrediChile had 550,533 Bancuenta accounts. Bancuenta account holders pay an annual fee, a fee related to the number of withdrawals on the Bancuenta line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a Bancuenta account are withdrawn automatically on a monthly basis from funds available in the account. Bancuenta allows us to offer our wholesale customers the ability to pay their employees by direct deposit of funds into the individual employee s account at Banco CrediChile. We believe this product can lead to stronger long-term relationships with our wholesale customers and their employees.

Wholesale Market

Our wholesale market business segment serves the needs of corporate customers. In 2010, this business segment recorded annual operating revenues of approximately Ch$281,481 million, which represented 24.1% of our total operating revenue, and annual net income before taxes of Ch$107,826 million, which represented 25.9% of our consolidated net income before taxes. As of December 31, 2010 loans made by this business segment amounted to Ch$7,135,093 million and represented 49.7% 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, 2010:

	As of December 31, 2010 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Commercial credits	Ch$ 5,365,694	75.2%
Foreign trade loans	891,170	12.5
Leasing loans	622,239	8.7
Factoring loans	142,819	2.0
Other loans	113,171	1.6
Total	Ch$ 7,135,093	100.0%

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As of December 31, 2010, we had 9,396 debtors out of a total of 23,224 wholesale customers. Our wholesale customers are engaged in a wide range of industry sectors. As of December 31, 2010, this business segment s loans were mainly related to:

- Community, social and personal services (approximately 18.9% of all loans made by this business segment);
- financial services (approximately 16.4% of all loans made by this business segment);
- commerce and trade (approximately 14.4% of all loans made by this business segment);
- manufacturing (approximately 13.0% of all loans made by this business segment);
- construction (approximately 10.6% of all loans made by this business segment);
- agriculture, forestry and fishing (approximately 7.6% of all loans made by this business segment);
- communication and transportation (approximately 5.5% of all loans made by this business segment);
- utilities (approximately 1.6% of all loans made by this business segment); and
- mining (approximately 1.2% of all loans made by this business segment).

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

Corporate Division

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

As of December 31, 2010, we had 742 large corporations as debtors out of a total of 3,766 customers in our Corporate Division with total outstanding loans of Ch$3,264,596 million, which represented 22.7% of our total outstanding loan portfolio as of the same date.

The following table sets forth the composition of our Corporate Division s loan portfolio in accordance with our internal reporting policies, as of December 31, 2010:

	As of December 31, 2010 (in millions of Ch$, except percentages)
BANK S INTERNAL REPORTING POLICIES:	

Commercial credits	Ch$ 2,815,588	86.2%
Foreign trade loans	268,527	8.2
Factoring loans	88,462	2.7
Leasing loans	47,935	1.5
Other loans	44,084	1.4
Total	Ch$ 3,264,596	100.0%

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

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As of December 31, 2010, we were party to approximately 951 payment service contracts and approximately 206 collection service contracts with large corporations. We believe that cash management and payment service contracts provide us with a source of low-cost deposits and the opportunity to cross-market our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our large corporate customers, providing centralized collection services for their accounts receivable and other similar payments.

In order to provide highly competitive and differentiated service, our Corporate Division has the direct support of our treasury and money market operations segment, which directly fulfills our corporate customers liquidity and short-term loans requirements. We have also improved our technological offering to facilitate connection with customers and enhance the 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 large corporations in Chile has been characterized by reduced profit margins, due in part to the greater direct access of such customers to domestic and international capital markets and other funding sources. Consequently, we have been increasingly focused on increasing the profitability in this segment through the enhancement of cross-selling fee generating services, such as payroll processing, dividend payments and billing services, as well as computer banking services. This strategy has enabled us to maintain profitable relationships with our large corporate customers while preserving the ability to extend credit when appropriate business opportunities arise.

During 2010, we consolidated the customer service model implemented during 2009, which enabled us to improve the division s cross-sell indicators. Also, throughout 2010 the division headed important transactions in the local market and put a set of policies in place in order to enhance our cash management services by reshaping and improving the quality and consistency of our services.

Large Companies and Real Estate Division

Our Large Companies and Real Estate Division provides a broad range of financial products and services (such as electronic banking, leasing, foreign trade and financial consultancy) to companies with annual sales that range from approximately Ch$1,500 million to approximately Ch$70,000 million. Customers served by this division are those related to the commercial, manufacturing, agricultural, forestry, fishing, infrastructure and real estate sectors.

As of December 31, 2010, we had 8,654 large companies as debtors out of a total of 19,458 customers in our Large Companies and Real Estate Division. Loans to large companies totaled approximately Ch$3,870,497 million as of the same date, which represented 26.9% of our total loans.

The following table sets forth the composition of the Large Companies and Real Estate Division s loan portfolio in accordance with our internal reporting policies, as of December 31, 2010:

	As of December 31, 2010 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Commercial credits	Ch$ 2,550,106	65.9%
Foreign trade loans	622,643	16.1
Leasing loans	574,304	14.8
Factoring loans	54,357	1.4
Other loans	69,087	1.8
Total	Ch$ 3,870,497	100.0%

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

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This division s aim is to deliver exceptional service to its customers based on proactive financial support that enhances long-term relationships with customers. In order to improve the division s service quality standards, during 2009 our Large Companies and Real Estate Division redesigned its service model to take advantage of synergies arising from the interaction of account and specialized support executives responsible for ensuring comprehensive customer service. These modifications enabled the division to strengthen customer relationships and increase market share, as well as product offerings.

During 2010, the division consolidated this service model, particularly within the metropolitan areas, which translated into significant increases in the amount of loans granted by our Large Companies and Real Estate Division in those locations. Similarly, the division achieved important increases in loans associated with factoring, leasing and foreign trade as a result of the implementation of this service model, which also derived in important service quality improvements. In addition, based on a joint-program developed with our Corporate and Market Risk Division, the Large Companies and Real Estate Division recorded a significant rise in loans granted outside Santiago. This joint-program consists of creating multi-disciplinary teams composed of an executive officer in charge of commercial duties and a credit risk analyst for customer visits in order to carry out an on-site evaluation of our customers needs.

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

Treasury and Money Market Operations

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

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

The treasury and money market operations business segment is also responsible for (i) the issuance of short- and long-term bonds, and the issuance of long-term subordinated bonds, (ii) monitoring compliance with regulatory deposit limits, technical reserves and maturity and rate matches, (iii) monitoring our adherence to the security margins defined by regulatory limits, and risk limits for interest rate, currency and investment gaps. This segment continually monitors the funding costs of the local financial system, comparing them with our own.

During 2010, our treasury and money market operations segment conducted important funding transactions, such as the issuance of approximately U.S.$558 million in subordinated bonds and the placement of approximately U.S.$706 million in senior bonds.

As of December 31, 2010, our securities portfolio amounted to Ch$1,436,870 million, of which 37% consisted of securities issued by the Central Bank and the Chilean Government, 14% consisted of securities from foreign issuers, 46% consisted of securities issued by local financial institutions and 3% consisted of securities issued by Chilean corporate issuers. Our investment strategy is designed with the aim of supplementing our expected profitability, risks and economic variable projections while adhering to the regulatory guidelines and internal limits defined by our finance committee.

The funding functions carried out by our treasury division are complemented by our international area, 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, 2010, we have established a network of approximately 600 foreign banks, among which we maintained credit relationships with approximately 250 correspondent banks, from which we maintained 42 account relationships

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During 2009, we entered into a new Framework Agreement of financial cooperation with the Export-Import Bank of China, the main foreign trade development bank in China, a major trading partner of Chile. During 2010 and the first months of 2011 our IFI area took different actions intended to diversify our funding sources, such as by obtaining a loan of U.S.$100 million from the China Development Bank and a loan of U.S.$200 million from an Asian syndicate of financial institutions.

Operations through Subsidiaries

We have made several strategic long-term investments in financial services companies that are engaged in activities complementary to our commercial banking activities. Our main goal in making these investments 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, 2010:

	As of or for the year ended December 31, 2010		
	Assets	**Equity**	**Net Income (loss)**
		(in millions of Ch$)	
BANK S INTERNAL REPORTING POLICIES:			
Banchile Trade Services Limited (Hong Kong)	Ch$ 643	Ch$ 623	Ch$ 65
Banchile Administradora General de Fondos S.A.	66,948	61,645	17,908
Banchile Asesoría Financiera S.A.	5,155	4,400	2,657
Banchile Corredores de Seguros Ltda	23,986	21,820	6,301
Banchile Corredores de Bolsa S.A.	395,527	85,754	24,519
Banchile Factoring S.A.	348,046	41,767	1,119
Banchile Securitizadora S.A.	481	364	(43)
Socofin S.A.	7,497	562	362
Promarket S.A.	1,597	733	(195)
Total	Ch$ 849,880	Ch$ 217,668	Ch$ 52,693

The following table sets forth information with respect to our ownership interest in our financial services subsidiaries as of December 31, 2010:

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

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

Securities Brokerage Services

We provide securities brokerage services through Banchile Corredores de Bolsa S.A. Banchile Corredores de Bolsa S.A. is registered as a securities broker with the *Superintendencia de Valores y Seguros de Chile* (the Chilean Superintendency of Securities and Insurance), the regulator of Chilean publicly listed companies, and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores de Bolsa S.A. has provided stock brokerage services, fixed-income investments and foreign exchange products to individuals and companies through our branch network. During the year ended December 31, 2010, Banchile Corredores de Bolsa S.A. recorded an aggregate trading volume on the Santiago Stock Exchange, the Chilean Electronic Stock Exchange and the Valparaíso Stock Exchange of approximately Ch$8,593,134 million. As of December 31, 2010, Banchile Corredores de Bolsa S.A. had equity of Ch$85,754 million and, for the year ended December 31, 2010, recorded a net income of Ch$24,519 million, which represented 5.9% of our consolidated net income for that period.

As a result of the merger between Banco de Chile and Citibank Chile, Citibank Agencia de Valores S.A. became a subsidiary of Banco de Chile as of January 1, 2008. In early 2009, Citibank Agencia de Valores S.A. merged with and into Banchile Corredores de Bolsa S.A.

Mutual and Investment Fund Management

Since 1980, we have provided mutual fund management services through Banchile Administradora General de Fondos S.A. (formerly Banchile Administradora de Fondos Mutuos S.A.). As of December 31, 2010, according to data prepared by the Chilean Superintendency of Securities and Insurance, Banchile Administradora General de Fondos S.A. was the largest mutual fund manager in Chile, managing approximately 23.5% of all Chilean mutual funds assets. As of December 31, 2010, Banchile Administradora General de Fondos S.A. operated 67 mutual and had Ch$4,269,000 million in assets under management from more than 309,000 corporate and individual investors. Also, as of December 31, 2010, Banchile Administradora General de Fondos S.A. operated six investment funds: Chile Small Cap, Banchile Inmobiliario II, III and IV, Brasil Variable-Income and Latam Small Mid-Cap, managing Ch$225,587 million in net assets on behalf of 595 participants.

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

The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos S.A. as of December 31, 2010:

Name of Fund	**Type of Fund**	**Net Asset Value As of December 31, 2010 (in millions of Ch$)**
Ahorro	Fixed income (medium/long term)	24,492
Alianza	Fixed income (medium/long term)	34,379
América Latina Accionario	Equity	36,961
Asia Fund	Debt/Equity	6,097
Asiático Accionario	Equity	19,522
Balance I	Debt/Equity	43,566
Banca Americana Voltarget Garantizado	Fixed income (medium/long term)	16,490
Banchile Acciones	Equity	117,597
Booster China Garantizado	Fixed income (medium/long term)	1,798
Capital Financiero	Fixed income (short term)	17,618
Capitalisa Accionario	Equity	11,059
Carry Trade Monedas	Fixed income (medium/long term)	7,708
Cash	Fixed income (short term)	79,134
Chile 18 Q	Equity	3,621
Chile Accionario	Equity	56,893
Cobertura	Fixed income (medium/long term)	1,256
Corporate Dólar Fund	Fixed income (short term)	416,946
Corporativo	Fixed income (short term)	310,066
Crecimiento	Fixed income (short/medium term)	27,184
Depósito XXI	Fixed income (medium/long term)	145,339
Deuda Nacional	Fixed income (medium/long term)	3,290
Disponible	Fixed income (short term)	46,838
Dollar Investment Grade	Fixed income (medium/long term)	28,819
Emerging Dollar Fund	Debt/Equity	34,236
Emerging Fund	Debt/Equity	50,400
Estrategia Commodities Garantizado	Fixed income (medium/long term)	9,065
Estratégico	Fixed income (medium/long term)	393,357
Euro Money Market Fund	Fixed income (short term)	19,174
Europe Fund	Debt/Equity	2,283
Flexible	Fixed income (short term)	216,605
Fortalezas Garantizado	Fixed income (medium/long term)	6,842

Global Dollar Fund	Debt/Equity	2,155
Global Fund	Debt/Equity	4,154
Horizonte	Fixed income (medium/long term)	55,950
Inversión	Debt/Equity	43,236

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Name of Fund	Type of Fund	Net Asset Value As of December 31, 2010 (in millions of Ch$)
Inversión 10	Debt/Equity	1,621
Inversión 20	Debt/Equity	4,457
Inversión Brasil	Debt/Equity	27,959
Inversión China	Debt/Equity	5,798
Inversión Dollar 30	Debt/Equity	3,142
Inversionista Calificado I	Equity	28,702
Latam Mid Cap	Debt/Equity	20,533
Latin America Fund	Debt/Equity	99,212
Liquidez 2000	Fixed income (short term)	533,748
Liquidez Full	Fixed income (short term)	440,266
Mid Cap	Equity	188,476
Muralla China Garantizado	Fixed income (medium/long term)	26,935
Operacional	Fixed income (medium/long term)	15,836
Oportunidades Sectoriales	Debt/Equity	17,705
Patrimonial	Fixed income (short term)	58,181
Performance	Fixed income (short/medium term)	10,622
Potencias Garantizado	Fixed income (medium/long term)	52,984
Renta Futura	Fixed income (medium/long term)	242,092
Retorno Dólar	Fixed income (medium/long term)	21,273
Retorno LP UF	Fixed income (medium/long term)	50,954
U.S. Dollar Fund	Debt/Equity	4,598
U.S. Fund	Debt/Equity	10,213
USA Accionario	Equity	8,463
Utilidades	Fixed income (short/medium term)	48,049
Viejo Continente Accionario	Equity	1,053
Visión Dinámica A	Debt/Equity	15,779
Visión Dinámica Acciones	Debt/Equity	6,127
Visión Dinámica B	Debt/Equity	7,328
Visión Dinámica C	Debt/Equity	10,455
Visión Dinámica D	Debt/Equity	2,047
Visión Dinámica E	Debt/Equity	3,370
Wall Street 107 Garantizado	Fixed income (medium/long term)	6,892
Total		**Ch$ 4,269,000**

As of December 31, 2010, Banchile Administradora General de Fondos S.A. recorded equity of Ch$61,645 million and, for the year ended December 31, 2010, net income of Ch$17,908 million, which represented 4.3% of our 2010 consolidated net income.

Factoring Services

We provide factoring services to our customers through Banchile Factoring S.A. Through this service; we purchase our customers outstanding debt portfolios, such as bills, notes, promissory notes or contracts, advancing them the cash flows involved and performing the collection of the related instruments. For the year ended December 31, 2010, Banchile Factoring S.A. had net income of Ch$1,119 million, which represents 0.3% of our 2010 consolidated net income. As of December 31, 2010, this subsidiary had equity of Ch$41,767 million and had a 23.6% market share in Chile s factoring industry, according to information provided by the Factoring Chilean Association.

Financial Advisory Services

We provide financial advisory and other investment banking services to our customers through Banchile Asesoría Financiera S.A. The services offered by Banchile Asesoría Financiera S.A. are primarily targeted to our corporate customers and include advisory services concerning mergers and acquisitions, restructuring, project finance and strategic alliances. As of December 31, 2010, Banchile Asesoría Financiera S.A. had equity of Ch$4,400 million and, for the year ended December 31, 2010, net income of Ch$2,657 million, which represents 6.4% of our 2010 consolidated net income.

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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, 2010, Banchile Corredores de Seguros Limitada had equity of Ch$21,820 million and, for the year ended December 31, 2010, net income of Ch$6,301 million, which represents 1.5% of our 2010 consolidated net income. According to the Insurance Companies Chilean Association, during 2009 (the latest year for which information is available), Banchile Corredores de Seguros Limitada had a 0.6% market share in the total amount of life and general purposes insurance policies (in Chilean pesos) sold by insurance brokerage companies in Chile.

Securitization Services

We offer investment products to meet the demands of institutional investors, such as private pension funds and insurance companies, through Banchile Securitizadora S.A. This subsidiary securitizes financial assets, which involves the issuance of debt instruments with credit ratings that can be traded in the Chilean marketplace, backed by a bundle of revenue-producing assets of the client company. As of December 31, 2010 Banchile Securitizadora S.A. had equity of Ch$634 million and, for the year ended December 31, 2010, a net loss of Ch$43 million. Also as of December 31, 2010, Banchile Securitizadora S.A. had a 15.5% market share in the total volume of assets securitized in Chile.

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, 2010, Promarket S.A. had equity of Ch$1,597 million and, for the year ended December 31, 2010, a net loss of Ch$195 million.

Collection Services

We provide judicial and extra-judicial loan collection services on our behalf and on behalf of third parties through our subsidiary Socofin S.A. As of December 31, 2010, Socofin S.A. had equity of Ch$562 million and, for the year ended December 31, 2010, net income of Ch$362 million.

Trade Services

In November 2004, we began offering direct trade services to our customers through Banchile Trade Services Limited, which acts as our trade finance entity in markets such as China, Hong Kong, Taiwan and South Korea. As of December 31, 2010, Banchile Trade Services Limited had equity of Ch$623 million and, for the year ended December 31, 2010, net income of Ch$65 million.

Distribution Channels and Electronic Banking

Our distribution network provides integrated financial services and products to our customers through a wide range of channels. The network includes ATMs, branches, on-line banking and phone-banking devices. As of December 31, 2010, we had 1,976 ATMs (that form part of Redbanc s 6,141 ATM system) which allowed our customers to conduct self-service banking transactions during banking and non-banking hours.

As of December 31, 2010, we had a network of 422 retail branches throughout Chile. Our branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, cash withdrawals, offer the full range of our retail banking products, such as consumer loans, automobile financing loans, credit cards, mortgage loans and current accounts and provide information to current and potential customers.

We offer electronic banking services to our customers 24 hours a day through our internet website, www.bancochile.cl, which has homepages that are segmented by the different target markets we serve. Our individual homepage offers a broad range of services, including the payment of bills, electronic fund transfers, stop payment and non-charge orders, as well as a wide variety of account inquiries. Our corporate homepage offers services including our office banking service, *Banconexion Web*, which enables our corporate customers to perform all of their banking transactions from their offices. Both homepages offer our customers the sale of products with exclusive benefits as part of the customer loyalty marketing programs that we have developed in order to enhance the proximity to our customers. We also have a homepage designed for our investor customers, through which they can trade stocks, take deposits and open savings accounts. Our foreign trade customers can rely on our international business homepage www.bancochile.com, which enables them to inquire about the status of their foreign trade transactions and perform transactions, such as opening letters of credit, recording import collection and hedging on instructions and letters of credit. On average, during 2010 approximately 500,784 individual and corporate customers performed nearly 19.4 million transactions per month on our website, of which approximately 2.9 million were monetary transactions.

In addition, we provide our customers with access to a 24-hour phone-banking call center that grants them access to account information and allows them to effect fund transfers and certain payments. This service, through which we receive approximately 379,794 calls per month, has enabled us to develop customer loyalty campaigns, sell financial products and services, answer specialized inquiries about our remote services and receive and resolve complaints by customers and non-customers.

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

Effects of Massive Earthquake on our Assets

On February 27, 2010, a massive earthquake hit Chile s center-south region. Private and public Chilean infrastructure was significantly damaged.

Individual wealth was impacted and the homes of some of the financial system s customers in the affected zones were destroyed by the earthquake. To help our customers, we have eased payment terms for our non-delinquent clients in the affected areas.

As a result of this event, during 2010 we incurred almost Ch$5.6 billion in expenses associated with the earthquake, mainly related to: (i) fixed-assets repairs and write-offs of approximately Ch$4.7 billion, and (ii) approximately Ch$0.9 billion as a result of the actions carried out to support our staff, as well as cash donations to local fund-raising campaigns. These expenses were partly offset by recoveries from insurance policies that amounted to approximately Ch$2.3 billion. Accordingly, as a result of the earthquake, during 2010 we recognized expenses (net of insurance recoveries) of approximately Ch$3.3 billion in our results of operations.

Involvement with the Transantiago Plan

Since June 2005, we have been a shareholder in *Administrador Financiero del Transantiago* (AFT), the company responsible for the financial management of the overhaul of Santiago s public transit system (the Transantiago Plan). Other majority shareholders of the company include three major Chilean banks, a financial services company and a technology services company. We own 20% of AFT s 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, which was enacted in September 2009.

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

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Competition

Overview

The Chilean market for banking and other financial services is highly and increasingly competitive and consists of a number of different market sectors. The most important sector, commercial banking, includes 24 privately-owned banks and one government-owned bank, Banco del Estado. As of December 31, 2010, the four largest Chilean banks accounted for 68.0% of all outstanding loans made by Chilean financial institutions: Banco Santander-Chile (20.9%), us (19.2%), Banco del Estado (15.2%) and Banco de Crédito e Inversiones (12.7%).

We face significant and increasing competition in all of the market segments in which we operate. As a commercial bank that offers a range of services to all types of businesses and individual customers, we face a variety of competitors, ranging from other large, privately-owned commercial banks to more specialized entities, such as niche banks. We consider the principal commercial banks in Chile to be our primary competitors, namely, Banco Santander-Chile, Banco de Crédito e Inversiones, Banco Bilbao Vizcaya Argentaria Chile (BBVA), and Corpbanca. Nevertheless, we also face competition from Banco del Estado, a government-owned bank, which has a larger distribution network and 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, 2010, with outstanding total loans of Ch$11,416,303 million, representing a 15.2% market share, according to data published by the Superintendency of Banks.

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

In the retail market, we compete with other privately-owned Chilean banks, as well with Banco del Estado. Among privately-owned banks, we consider our strongest competitors in this market to be Banco Santander-Chile, Banco de Crédito e Inversiones and BBVA, as these banks have developed business strategies focused on both small- and medium-sized companies and lower to middle income segments of the Chilean population. In addition, with respect to high-income individuals, as of December 2010, we considered our strongest competitors in this market to be Banco Santander-Chile and Banco Itaú Chile, as these banks relies on specialized business units in order to serve high-income customers. We also compete with companies that offer non-banking specialized financial services in the high-income segment (such as Larrain Vial and Celfin Capital) whose core businesses are to provide stock brokerage, financial advisory and wealth management related services.

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

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

Monex was acquired by Consorcio Group, which absorbed the whole operations of the former and its subsidiaries, becoming Banco Consorcio.

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

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

In recent years, the Chilean financial system has witnessed a new phenomenon: the rise of non-traditional banking competitors, such as large department stores. The participation of these players has become increasingly significant in the consumer-lending sector. Currently, there are three consumer-oriented banks, affiliated with Chile s largest department stores, Banco Falabella, Banco Ripley and Banco Paris. Although these banks had a market share of only 1.5% as of December 31, 2010, according to the Superintendency of Banks, the presence of these banks is likely to make consumer banking more competitive over next years.

Below is a set of tables and figures for the years ended December 31, 2008, 2009 and 2010 that shows our position within the Chilean financial system. Prior years have not been included in these tables as new accounting rules applicable to the presentation of financial information by the Chilean banking industry became in effect at January 1, 2008, and figures before January 1, 2008 are not comparable. In addition, the market information is set forth under Chilean GAAP as published by the Superintendency of Banks.

The following table sets forth certain statistical information on the Chilean financial system as of December 31, 2010, according to information published by the Superintendency of Banks under Chilean GAAP:

	As of December 31, 2010							
	Assets		Loans[1]		Deposits		Equity[2]	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
	(in millions of Ch$, except percentages)							
CHILEAN GAAP:								
Private sector banks	Ch $ 89,418,243	82.6%	Ch$ 63,537,678	84.8%	Ch$ 52,322,127	80.5%	Ch$ 7,553,272	89.0%
Banco del Estado	18,815,609	17.4	11,416,303	15.2	12,644,757	19.5	931,045	11.0
Total banking system	Ch$ 108,233,852	100.0%	Ch$ 74,953,981	100.0%	Ch$ 64,966,884	100.0%	Ch$ 8,484,317	100.0%

Source: Superintendency of Banks

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

Loans

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

	Bank Loans[1]		
	As of December 31,		
	2008	2009	2010
CHILEAN GAAP:			

Banco Santander-Chile	20.7%	19.9%	20.9%
Banco de Chile	19.4	19.1	19.2
Banco de Crédito e Inversiones	13.3	12.8	12.7
BBVA Bilbao Vizcaya	7.5	7.0	7.3
Banco Corpbanca	7.0	7.3	7.3
Total market share	67.9%	66.1%	67.4%

Source: Superintendency of Banks

(1) Provisions for loan losses not deducted.

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Credit Quality

The following table sets forth the ratio of allowances to total loans of the largest private banks in Chile and that of the Chilean financial system as a whole (including such banks) as of December 31, 2008, 2009 and 2010, according to information published by the Superintendency of Banks under Chilean GAAP:

	Allowances to Total Loans As of December 31,		
	2008	**2009**	**2010**
CHILEAN GAAP:			
Banco de Chile	1.78%	2.45%	2.48%
Banco de Crédito e Inversiones	1.41	2.21	2.52
BBVA Bilbao Vizcaya	1.13	1.61	1.75
Banco Santander Chile	1.88	2.55	2.82
Banco Corpbanca	1.51	1.91	1.95
Financial system	1.86%	2.43%	2.52%

Source: Superintendency of Banks

The following table sets forth the ratio of past-due loans to total loans for the largest private banks in Chile as of December 31, 2008, 2009 and 2010 on a consolidated basis, according to information published by the Superintendency of Banks under Chilean GAAP:

	Past-Due Loans to Total Loans As of December 31,		
	2008	**2009**	**2010**
CHILEAN GAAP:			
BBVA Bilbao Vizcaya	1.00%	1.02%	0.75%
Banco Santander Chile	1.10	1.41	1.32
Banco de Crédito e Inversiones	0.80	1.19	1.23
Banco de Chile	0.60	0.68	0.51
Banco Corpbanca	0.78	0.82	0.86
Financial system	0.99%	1.36%	1.27%

Source: Chilean Superintendency of Banks

Deposits

We had total deposits of Ch$12,144,149 million as of December 31, 2010, according to information published by the Superintendency of Banks under Chilean GAAP. The following table sets forth the market shares in terms of total deposits for private banks as of December 31, 2008, 2009 and 2010 on a consolidated basis, according to information published by the Superintendency of Banks under Chilean GAAP:

	Deposits As of December 31,		
	2008	**2009**	**2010**
CHILEAN GAAP:			
Banco de Chile	18.8%	19.0%	18.7%
Banco Santander Chile	20.8	18.3	17.7

Banco de Crédito e Inversiones	13.2	13.5	12.8
BBVA Bilbao Vizcaya	7.4	6.6	6.4
Banco Corpbanca	6.1	6.5	6.6
Total market share	66.3%	63.9%	62.2%

Source: Superintendency of Banks

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Capital and Reserves

The following table sets forth the level of capital and reserves for the largest private banks in Chile as of December 31, 2008, 2009 and 2010 according to information published by the Superintendency of Banks under Chilean GAAP:

	Capital and Reserves As of December 31,		
	2008	2009	2010
		(in millions of Ch$)	
CHILEAN GAAP:			
Banco Santander Chile	Ch$ 1,198,957	Ch$ 1,386,238	Ch$ 1,529,599
Banco de Chile	1,165,014	1,315,382	1,268,101
Banco de Crédito e Inversiones	620,412	783,611	883,714
Banco Corpbanca	436,191	460,980	475,839
BBVA Bilbao Vizcaya	Ch$ 384,415	Ch$ 432,626	Ch$ 464,814

Source: Superintendency of Banks

Return on Capital and Reserves

The following table sets forth our return on capital and reserves and the returns on capital and reserves of our principal private competitors and the Chilean financial system as a whole, in each case as of December 31, 2008, 2009 and 2010, according to information published by the Superintendency of Banks under Chilean GAAP:

	Return on Capital and Reserves Year Ended December 31,		
	2008	2009	2010
CHILEAN GAAP:			
Banco de Chile	29.8%	19.6%	29.9%
Banco Santander-Chile	34.6	31.1	31.3
Banco de Crédito e Inversiones	31.0	20.5	25.1
Banco Corpbanca	19.8	18.5	24.8
BBVA Bilbao Vizcaya	18.1	15.7	10.4
Financial system average	22.2%	16.5%	20.8%

Source: Superintendency of Banks

Efficiency

The following table sets forth the efficiency ratios of the largest private Chilean banks as of December 31, 2008, 2009 and 2010, according to information published by the Superintendency of Banks under Chilean GAAP:

	Efficiency Ratio[(1)] As of December 31,		
	2008	2009	2010
CHILEAN GAAP:			
BBVA Bilbao Vizcaya	53.7%	53.0%	62.9%

Banco de Crédito e Inversiones	50.4	47.5	50.5
Banco de Chile	51.9	48.8	50.3
Banco Santander-Chile	37.9	34.5	40.1
Banco Corpbanca	45.6	42.7	42.3
Financial system average	49.2%	45.5%	45.8%

Source: Superintendency of Banks

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

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REGULATION AND SUPERVISION

General

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

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

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

The Central Bank

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

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

The Superintendency of Banks

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

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

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

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

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

Such prior authorization is required only when the acquiring bank or the resulting group of banks would own a market share in loans determined by the Superintendency of Banks to be more than 15.0% of the Chilean banking system loans. The intended purchase, merger or expansion may be denied by the Superintendency of Banks, or, if the acquiring bank or resulting group would own a market share in loans determined to be more than 20.0% 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 8.0% and up to 14.0% of their risk-weighted assets;
- that the technical reserve established in article 65 of the General Banking Law be applicable when deposits exceed 1.5 times the resulting bank s paid-in capital and reserves; or
- that the amount of interbanking loans be reduced to 20.0% of the resulting bank s Regulatory Capital.

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

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

- banks must disclose to the Superintendency of Banks the identity of any person owning, directly or indirectly, 5.0% or more of its shares;
- holders of ADSs must disclose to the depositary the identity of beneficial owners of ADSs registered under such holders names;

the depositary must disclose to the bank the identity of beneficial owners of ADSs which the depositary has registered, and the bank, in turn, must disclose to the Superintendency of Banks the identity of the beneficial owners of the ADSs representing 5.0% or more of such bank s shares; and bank shareholders who individually hold 10.0% or more of a bank s capital stock and who are controlling shareholders must periodically inform the Superintendency of Banks of their financial condition.

Limitations on Types of Activities

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

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

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

As a consequence of Chile s accession to the Organization for Economic Co-operation and Development, Congress introduced new corporate governance regulations in 2009. The Chilean Corporations Law and the Chilean Securities Markets Law were amended such that public companies with capital above 1,500,000 UF and that have at least 12.5% of their voting shares owned by shareholders representing less than 10% of the voting shares are required to have at least one independent director in their board of directors. In order to assure the independence of this director, certain requirements were set to protect minority shareholders decisions. In addition, regulation was passed to expand the 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 held by individuals:

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

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In addition, the Chilean Government guarantees up to 90.0% of the principal amount of time deposits held by individuals in the Chilean banking system. This guarantee covers obligations with a maximum value of UF 108 per person (Ch$2,317,199 or U.S.$4,947 as of December 31, 2010).

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 but under previous Superintendency of Banks approval.

Minimum Capital

Under the General Banking Law, a bank must have a minimum paid-in capital and reserves of UF 800,000 (Ch$17,164 million or U.S.$36.6 million as of December 31, 2010). However, a bank may begin its operations with 50.0% of such amount, provided that it has a Regulatory Capital ratio (defined as Regulatory Capital as a percentage of risk-weighted assets) of not less than 12.0%. When such a bank s paid-in capital reaches UF 600,000 (Ch$12,873 million or U.S.$27.5 million as of December 31, 2010), the Regulatory Capital ratio requirement is reduced to 10.0%.

Capital Adequacy Requirements

According to the General Banking Law, each bank should have Regulatory Capital of at least 8.0% of its risk-weighted assets, net of required allowances. 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 3.0% of their total assets, net of required allowances.

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

Market Risk Regulations

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

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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 the price risk of the trading book plus 8% of the risk-weighted assets (in light of our merger with Citibank Chile, the Superintendency of Banks has raised the applicable percentage to us from 8% to 10%) may not be greater than Regulatory Capital. As of December 31, 2010, the price risk of our trading book totaled Ch$36,809 million.

The following table shows our regulatory risk availability, computed as the difference between the total risk (10% of the risk-weighted assets plus the trading book risk) and our Regulatory Capital, as of December 31, 2010:

	As of December 31, 2010 (in millions of Ch$, except percentage)
(a) 10% risk-weighted assets	1,644,570
(b) Trading price risk	36,809
(c = a + b) Total risk	1,681,379
(d) Regulatory Capital	2,201,324
(e = d - c) Risk Availability	519,945
(f = c/d) Risk used as a Percentage of Regulatory Capital	76.4%

Interest rate risk generated by the accrual book is measured against a self-imposed limit equal to the lesser of 12-month rolling net revenues and 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 the Basic Capital for the following 30 days or two times that amount for the following 90 days. Subject to the Superintendency of Banks approval, the cash flow analysis may include behavioral run-off assumptions for some specific liability balance sheets items (demand deposits, time deposits, etc.) and behavioral roll-over assumptions for some asset items of the consolidated statement of financial position data (loans, etc.).

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

Prior to June 2006, the Superintendency of Banks allowed banks to classify debt instruments for accounting and business purposes as either Trading or Held-to-Maturity only. Starting in June 2006, a new alternative classification was added (Available-for-Sale). With these three classifications now in place, the Chilean classification framework is in line with current international standards prevalent in all major financial centers. No changes to the classification system have occurred since June 2006.

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

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

The Current Mark-to-Market (CMTM) of the transaction, if positive, reflects the amount of money owed by the customer today, e.g. corresponding to the amount the customer would pay us if the transaction were unwound today. As we are interested in measuring the maximum amount of money that the customer would owe us within the life of the transaction, the maximum potential future value of the transaction is added to the CMTM. This potential value is measured as the Credit Risk Factor multiplied by the Notional Amount. Hence, the Credit Risk Factor reflects the potential value that the transaction may take in favor of the bank (under some confidence level) within its remaining tenor The regulator determines the Credit Risk Factor by considering market factors (three

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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 in order so as to assess credit risk not only under regulatory guidelines. Netting and credit mitigants, such as recouponing, early termination, margins, etc. have been accepted by the regulators in order to optimize the credit risk utilization.

Lending Limits

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

- A bank may not extend to any entity or individual, directly or indirectly, unsecured credit in an amount that exceeds 10.0% of the bank s Regulatory Capital, or in an amount that exceeds 30.0% of its Regulatory Capital if the excess over 10.0% is secured by certain assets with a value equal to or higher than such excess.

- In the case of financing infrastructure projects built through the concession mechanism, the 10.0% ceiling for unsecured credits is raised to 15.0% if secured by a pledge over the concession, or if granted by two or more banks or 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 30.0% of its Regulatory Capital.

- A bank may not extend to any individual or entity that is, directly or indirectly, related to the ownership or management of the bank, credit under more favorable terms with respect to repayment conditions, interest rates or collateral than those granted to third parties in similar transactions. The aggregate amount of such credits granted to related persons may not exceed 5.0% of the bank s Regulatory Capital. The 5.0% unsecured ceiling is raised to 25.0% of the bank s Regulatory Capital if the excess over 5.0% is secured by certain assets with a value equal to or higher than such excess. In any case, the aggregate amount of these credits granted by the bank may not exceed the bank s Regulatory Capital.

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

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

- A bank may not grant loans to related parties (including holders of more than 1.0% of its shares) on more favorable terms than those generally offered to non-related parties. Loans granted to related parties are subject to the limitations described in the first bullet point above. The aggregate amount of loans to related parties may not exceed a bank s Regulatory Capital.

In addition, the General Banking Law limits the aggregate amount of loans that a bank may grant to its employees to 1.5% of its Regulatory Capital and provides that no individual employee may receive loans in excess of 10.0% of this 1.5% limit. Notwithstanding these limitations, a bank may grant to each of its employees a single residential mortgage loan for personal use during such employee s term of employment.

Classification of Banks

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

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Solvency and Management

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

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

A bank s solvency rating is determined by its Regulatory Capital (after deducting accumulated losses during the financial year) to risk-weighted assets ratio. This ratio is equal to or greater than 10.0% for level A banks, equal to or greater than 8.0% and less than 10.0% for level B banks and less than 8.0% for level C banks.

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

Obligations Denominated in Foreign Currencies

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

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

- net foreign currency outflows may not exceed the amount of the Basic Capital for the following 30 days or two times that amount for the following 90 days.

Capital Markets

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

Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its board of directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the board of directors is unable to do so, it must call an extraordinary shareholders meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the 30-day period and in the manner agreed to at the meeting, or if the Superintendency of Banks does not approve the board of directors proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the board of directors and from making any further investments in any instrument other than instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations, or if a bank is under provisional administration of the Superintendency of Banks, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the board of directors of both banks, as well as by the Superintendency of Banks, but need not be submitted to the borrowing bank s shareholders for their approval. A creditor bank may not grant such interbank loans to an insolvent bank in an amount exceeding 25.0% of the creditor bank s Regulatory Capital. The board of directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, forgive debts or take other measures for the payment of the debts. If the board of directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of Regulatory Capital to risk-weighted assets to be no lower than 12.0%. If a bank fails to pay an obligation, it must notify the Superintendency of Banks, which shall determine if the bank is solvent.

Dissolution and Liquidation of Banks

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

Investments in Foreign Securities

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

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

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

Rating Agency	Short Term	Long Term
Moody s	P2	Ba3
Standard and Poor s	A3	BB-
Fitch IBCA	F2	BB-

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

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

Subject to specific conditions, a bank may grant loans in 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 not less than BB- or its equivalent and, in general, to individuals and entities residing or domiciled abroad.

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

Procedures for the Management of Information of Interest to the Market

In order to ensure compliance with the provisions of the Chilean Securities Market Law and regulations, issued by the Chilean Superintendency of Securities and Insurance and the Superintendency of Banks, our board of directors approved, on October 24, 2008, the Manual for the Management of Information of Interest to the Market (the Manual).

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

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

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

Prevention of Money Laundering and the Financing of Terrorism

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

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

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

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

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

New Guidelines for Credit Classification and Provisions Procedures for Loans

On August 12, 2010, the Superintendency of Banks issued Circular No. 3,503 establishing new guidelines for credit classification and provisions procedures applicable for loans, which became effective on January 1, 2011, except for the rules related to additional provisions described below which became effective immediately upon publication.

The new guidelines introduced the following loan classification categories:

Normal Loans: corresponds to borrowers who are up to date on their payment obligations and show no sign of deterioration in their credit quality;

Substandard Loans: includes 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; and

Non-complying Loans: corresponds to borrowers and its credits whose payment capacity is seriously at risk and who have a high likelihood of filing for bankruptcy or are renegotiating credit terms to

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avoid bankruptcy. This category comprises all loans and contingent loans outstanding from debtors that have at least one installment payment of interest or principal overdue for 90 days or more.

In terms of provisions, these new guidelines include:

- Permitting Chilean banks to establish additional allowances with the aim of offsetting macroeconomic fluctuation risks. These allowances are expected to anticipate and prevent expansive economic cycles which may in the future result in the deterioration of economic conditions, and as a mechanism to accumulate additional provisions during cycles of favorable economic conditions that may be used as a cushion if and when economic conditions deteriorate; and

- The definition of a minimum allowance equivalent to 0.5% of the Normal Loans category individually evaluated.

We expect that these new guidelines will not negatively impact our business or financial position. These guidelines are only applicable under Chilean GAAP.

New Consumer-Oriented Regulation

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

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

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

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

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

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

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

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

We expect that these new guidelines will not have an adverse effect on our business, financial condition and results of operations.

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ORGANIZATIONAL STRUCTURE

The following diagram presents our current corporate structure, including our subsidiaries and their respective direct ownership interests, as of December 31, 2010:

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

PROPERTY, PLANTS AND EQUIPMENT

We are domiciled in Chile and own the building located at Paseo Ahumada 251, Santiago, Chile, that is approximately 77,500 square meters and serves as the headquarters for the Bank and its subsidiaries. In addition, we own an approximately 15,600 square meter building located at Huerfanos 740, Santiago, Chile where the remainder of our executive offices are located. As of December 31, 2010, we owned the properties on which 167 of our full-service branches and other points of sale are located (approximately 110,000 square meters of office space). As of December 31, 2010, we had leased office space for our remaining 255 full-service branches and other points of sale, as well as for our representative offices. We also own properties throughout Chile for back office and administrative operations, as well as for storage of documents and other purposes. We believe that our facilities are adequate for our present needs and suitable for their intended purposes.

As of December 31, 2010, we also owned approximately 133,500 square meters in mainly recreational physical facilities in Chile, which we use to assist our employees in maintaining a healthy work and life balance and which we use for incentive and integration activities.

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

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SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2010 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, have been calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries. These average balances are presented in Chilean pesos (Ch$), in UF and in foreign currencies (principally the U.S. dollar). The UF is an inflation-indexed Chilean monetary unit of account with a value in Chilean pesos which is linked to, and which is adjusted daily to reflect changes in, the consumer price index of the Chilean National Institute of Statistics.

The nominal interest rate has been calculated by dividing the amount of interest and principal readjustment gain or loss during the period by the related average balance, both amounts expressed in constant pesos. The nominal rates calculated for each period have been converted into real rates using the following formulas:

and

Where:

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

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

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

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

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

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

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

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

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

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

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

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

- the Central Bank, only the portion that is legally required to be held for liquidity purposes earns interest; and

- overseas banks earn interest on certain accounts in certain countries.

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

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

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The following tables set forth, by currency of denomination, average balances and, where applicable, interest amounts and nominal and real rates for our assets and liabilities under IFRS for the years ended December 31, 2008, 2009 and 2010:

	For the Year Ended December 31,											
	2008				2009				2010			
	Average balance	Interest earned(1)	Average nominal rate	Average real rate	Average balance	Interest earned(1)	Average nominal rate	Average real rate	Average balance	Interest earned(1)	Average nominal rate	Average real rate
	(in millions of Ch$, except percentages)											
RS:												
sets												
erest earning ets												
sh and due m banks												
$	Ch$ 411,600	Ch$ 391	0.09%	(6.91)%	Ch$ 462,300	Ch$ 17		1.40%	Ch$ 559,039	Ch$ 274	0.05%	(3.71)
reign currency	380,921	2,997	0.79	18.92	352,163	173	0.05	(18.33)	289,374	93	0.03	(10.96)
tal	792,521	3,388	0.43	5.50	814,463	190	0.02	(7.13)	848,413	367	0.04	(6.18)
nancial estments												
$	853,423	62,619	7.34	(0.18)	816,111	28,762	3.52	4.97	608,266	19,777	3.25	(0.62)
	322,485	36,753	11.40	3.60	619,451	6,086	0.98	2.40	725,734	32,351	4.46	0.54
reign currency	203,955	5,053	2.48	20.92	192,708	7,408	3.84	(15.24)	185,808	2,609	1.40	(9.74)
tal	1,379,863	104,425	7.57	3.82	1,628,270	42,256	2.60	1.60	1,519,808	54,737	3.60	(1.18)
ans in vance to nks												
$	158,643	15,342	9.67	1.99	204,703	5,479	2.68	4.11	339,844	7,205	2.12	(1.71)
reign currency												
tal	158,643	15,342	9.67	1.99	204,703	5,479	2.68	4.11	339,844	7,205	2.12	(1.71)
mmercial ns												
$	3,399,586	321,859	9.47	1.80	3,758,821	275,631	7.33	8.83	4,076,224	226,117	5.55	1.59
	3,544,228	481,192	13.58	5.62	3,239,648	76,109	2.35	3.78	3,231,121	218,776	6.77	2.76
reign currency	1,662,610	92,525	5.57	24.56	1,540,276	64,139	4.16	(14.97)	1,555,737	41,379	2.66	(8.62)
tal	8,606,424	895,576	10.41	7.77	8,538,745	415,879	4.87	2.62	8,863,082	486,272	5.49	0.22
nsumer loans												
$	1,814,183	372,977	20.56	12.12	1,831,744	378,004	20.64	22.32	1,950,497	373,264	19.14	14.66
	34,337	5,573	16.23	8.09	40,354	1,627	4.03	5.49	46,903	3,685	7.86	3.81
reign currency												
tal	1,848,520	378,550	20.48	12.04	1,872,098	379,631	20.28	21.96	1,997,400	376,949	18.87	14.41

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	For the Year Ended December 31,											
	2008				2009				2010			
	Average balance	Interest earned(1)	Average nominal rate	Average real rate	Average balance	Interest earned(1)	Average nominal rate	Average real rate	Average balance	Interest earned(1)	Average nominal rate	Averag real rate
	(in millions of Ch$, except percentages)											
:												
ential gage loans												
	2,167,810	301,013	13.89	5.91	2,359,746	57,351	2.43	3.86	2,698,384	187,363	6.94	2.93
gn currency												
	2,167,810	301,013	13.89	5.91	2,359,746	57,351	2.43	3.86	2,698,384	187,363	6.94	2.93
rchase ement												
	49,418	4,639	9.39	1.73	13,799	1,193	8.65	10.17	74,471	5,387	7.23	3.21
					28,331							
gn currency	2,668	27	1.01	19.19	625							
	52,086	4,666	8.96	2.62	42,755	1,193	2.79	3.28	74,471	5,387	7.23	3.21
interest ngs assets												
	6,686,853	777,827	11.63	3.81	7,087,478	689,086	9.72	11.26	7,608,341	632,024	8.31	4.24
	6,068,860	824,531	13.59	5.63	6,287,530	141,173	2.25	3.68	6,702,142	442,175	6.60	2.60
gn currency	2,250,154	100,602	4.47	23.27	2,085,772	71,720	3.44	(15.57)	2,030,919	44,081	2.17	(9.06
	Ch$ 15,005,867	Ch$ 1,702,960	11.35%	7.47%	Ch$ 15,460,780	Ch$ 901,979	5.83%	4.56%	Ch$ 16,341,402	Ch$ 1,118,280	6.84%	1.91

Interest earned includes interest accrued on trading securities.

	For the Year Ended December 31,											
	2008				2009				2010			
	Average balance	Interest earned(1)	Average nominal rate	Average real rate	Average balance	Interest earned(1)	Average nominal rate	Average real rate	Average balance	Interest earned(1)	Average nominal rate	Average real rate
	(in millions of Ch$, except percentages)											
IFRS:												
Assets												
Non-interest earning assets												
Transaction in the course of collection												
Ch$	Ch$ 287,211	Ch$			Ch$ 234,486	Ch$			Ch$ 263,263	Ch$		
UF					9							
Foreign currency	223,668				149,347				152,592			
Total	510,879				383,842				415,855			
Allowances for loan losses												
Ch$	(168,266)				(260,879)				(341,313)			
UF												
Foreign currency												
Total	(168,266)				(260,879)				(341,313)			
Derivatives												
Ch$	692,853				604,845				481,674			
UF	4											
Foreign currency	62,310				43,429				44,635			
Total	755,167				648,274				526,309			
Investment in other companies												
Ch$	11,350				9,024				11,057			
UF												
Foreign currency	2				2				2			
Total	11,352				9,026				11,059			
Intangible assets												
Ch$	92,474				89,144				82,151			
UF												
Foreign currency												
Total	92,474				89,144				82,151			
Fixed assets												
Ch$	214,320				210,711				207,267			
UF												
Foreign currency												
Total	214,320				210,711				207,267			
Current tax assets												
Ch$	4,426				1,185				2,520			
UF												
Foreign currency												
Total	4,426				1,185				2,520			

Deferred tax assets			
Ch$	54,299	62,627	63,935
UF			
Foreign currency			
Total	54,299	62,627	63,935
Other assets			
Ch$	154,356	84,941	216,432
UF	38,847	579,991	40,135
Foreign currency	39,908	12,650	12,502
Total	233,111	677,582	269,069

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	For the Year Ended December 31,											
	2008				2009				2010			
	Average balance	Interest earned[(1)]	Average nominal rate	Average real rate	Average balance	Interest earned[(1)]	Average nominal rate	Average real rate	Average balance	Interest earned[(1)]	Average nominal rate	Avera real r
	(in millions of Ch$, except percentages)											
erest												
g assets												
	1,343,023				1,036,084				986,986			
	38,851				580,000				40,135			
currency	325,888				205,428				209,731			
	Ch$ 1,707,762				1,821,512				1,236,852			
ssets												
	8,029,876	777,827			8,123,562	689,086			8,595,327	632,024		
	6,107,711	824,531			6,867,530	141,173			6,742,277	442,175		
currency	2,576,042	100,602			2,291,200	71,720			2,240,650	44,081		
	Ch$ 16,713,629	Ch$ 1,702,960			Ch$ 17,282,292	Ch$ 901,979			Ch$ 17,578,254	Ch$ 1,118,280		

nterest earned includes interest accrued on trading securities.

	For the Year Ended December 31,											
	2008				2009				2010			
	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominalrate	Average real rate	Average balance	Interest paid	Average nominal rate	Avera real r
	(in millions of Ch$, except percentages)											
ies												
t bearing es												
s ts												
	Ch$ 4,088,010	Ch$ 300,813	7.36%	(0.16)%	Ch$ 3,919,286	Ch$ 131,470	3.35%	4.80%	Ch$ 4,172,738	Ch$ 86,691	2.08%	(1.
	2,316,179	256,992	11.10	3.32	2,434,064	7,475	0.31	1.71	2,087,299	89,517	4.29	0.
currency	1,190,174	44,533	3.74	22.41	1,214,967	20,711	1.70	(16.98)	1,122,089	14,441	1.29	(9.
	7,594,363	602,338	7.93	4.44	7,568,317	159,656	2.11	0.31	7,382,126	190,649	2.58	(2.
chase ents												
	399,459	26,013	6.51	(0.95)	239,295	5,535	2.31	3.74	167,032	1,640	0.98	(2.
	2,914	56	1.92	(5.22)	31,354	725	2.31	3.74	14,665	367	2.50	(1.
currency	36,972	2,404	6.50	25.67	4,409	99	2.25	(16.54)	1,259	1	0.08	(10.
	439,345	28,473	6.48	1.26	275,058	6,359	2.31	3.42	182,956	2,008	1.10	(2.
vings nancial ions												
	53,180	4,035	7.59	0.05	67,314	2,479	3.68	5.13	82,313	2,138	2.60	(1.
	11,672	43	0.37	(6.66)	2,972	1	0.03	1.43	8,255	21	0.25	(3.
currency	1,158,841	240	0.02	18.02	1,126,865	23		(18.37)	1,275,267	16,663	1.31	(9.

	1,223,693	4,318	0.35	17.00	1,197,151	2,503	0.21	(17.00)	1,365,835	18,822	1.38	(9.
sued												
	35,901	3,204	8.92	1.30	17,885	1,264	7.07	8.57	78,957	805	1.02	(2.
	1,578,506	216,361	13.71	5.74	1,565,522	26,032	1.66	3.09	1,463,769	104,641	7.15	3.
currency	116,589	6,617	5.68	24.69	130,222	4,942	3.80	(15.28)	117,714	4,306	3.66	(7.
	1,730,996	226,182	13.07	6.93	1,713,629	32,238	1.88	1.75	1,660,440	109,752	6.61	2.
inancial ions												
	29,578	400	1.35	(5.75)	41,019	848	2.07	3.50	60,144	1,146	1.91	(1.
	5,477	1,239	22.62	14.04	12,242				29,200	1,767	6.05	2.
currency	60,147	22,313	37.10	61.77	48,738	21,279	43.66	17.26	42,856	362	0.84	(10.
	95,202	23,952	25.16	38.05	101,999	22,127	21.69	9.66	132,200	3,275	2.48	(3.
nterest g es												
	4,606,128	334,465	7.26	(0.25)	4,284,799	141,596	3.30	4.75	4,561,184	92,420	2.03	(1.
	3,914,748	474,691	12.13	4.27	4,046,154	34,233	0.85	2.26	3,603,188	196,313	5.45	1.
currency	2,562,723	76,107	2.97	21.50	2,525,201	47,054	1.86	(16.85)	2,559,185	35,773	1.40	(9.
	Ch$ 11,083,599	Ch$ 885,263	7.99%	6.38%	Ch$ 10,856,154	Ch$ 222,883	2.05%	(1.20)%	Ch$ 10,723,557	Ch$ 324,506	3.03%	(2.

	Year Ended December 31, 2008				2009				2010			
	Average balance	**Interest paid**	**Average nominal rate**	**Average real rate**	**Average balance**	**Interest paid**	**Average nominal rate**	**Average real rate**	**Average balance**	**Interest paid**	**Average nominal rate**	**Avera real r**
	(in millions of Ch$, except percentages)											
ies												
nterest g es												
t account mand												
	Ch $ 2,348,316	Ch$			Ch$ 2,665,304	Ch$			Ch$ 3,452,445	Ch$		
	11,416				13,117				107,937			
currency	343,295				454,883				525,418			
	2,703,027				3,133,304				4,085,800			
ction in rse of nt												
	166,951				132,821				139,131			
currency	178,560				133,966				142,429			
	345,511				266,787				281,560			
tives												
	695,031				610,155				434,521			
	2,903											
currency	51,962				61,940				77,072			
	749,896				672,095				511,593			

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	Year Ended December 31,											
	2008				2009				2010			
	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate	Average balance	Interest paid	Average nominal rate	Average real rate
	(in millions of Ch$, except percentages)											
IFRS:												
Current liabilities												
Ch$	11,624				15,401				14,143			
UF												
Foreign currency												
Total	11,624				15,401				14,143			
Deferred tax liabilities												
Ch$	42,928				37,291				19,052			
UF												
Foreign currency												
Total	42,928				37,291				19,052			
Provisions												
Ch$	68,674				64,697				49,109			
UF												
Foreign currency	1,498											
Total	70,172				64,697				49,109			
Other liabilities												
Ch$	172,864				108,883				206,557			
UF	16,192				568,572				10,247			
Foreign currency	24,678				5,367				6,223			
Total	213,734				682,822				223,027			
Equity												
Ch$	1,437,637				1,553,104				1,670,413			
UF												
Foreign currency	55,501				637							
Total	1,493,138				1,553,741				1,670,413			
Total non-interest bearing liabilities and equity												
Ch$	4,944,025				5,187,656				5,985,371			
UF	30,511				581,689				118,184			
Foreign currency	655,494				656,793				751,142			
Total	Ch$ 5,630,030				Ch$ 6,426,138				6,854,697			
Total liabilities and equity												
Ch$	9,550,153	334,465			9,472,455	141,596			10,546,555	92,420		
UF	3,945,259	474,691			4,627,843	34,233			3,721,372	196,313		
Foreign currency	3,218,217	76,107			3,181,994	47,054			3,310,327	35,773		

Total	Ch$ 16,713,629	Ch$ 885,263	Ch$ 17,282,292	Ch$ 222,883	Ch$ 17,578,254	Ch$ 324,506

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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, 2009 and 2010:

	For the Year Ended December 31, 2008	2009	2010
	(in millions of Ch$, except percentages)		
IFRS:			
Total average interest earning assets			
Ch$	Ch$ 6,686,853	Ch$ 7,087,478	Ch$ 7,608,341
UF	6,068,860	6,287,530	6,702,142
Foreign currency	2,250,154	2,085,772	2,030,919
Total	15,005,867	15,460,780	16,341,402
Net interest earned(1)			
Ch$	443,362	547,490	539,604
UF	349,840	106,940	245,862
Foreign currency	24,495	24,666	8,308
Total	Ch$ 817,697	Ch$ 679,096	Ch$ 793,774
Net interest margin, nominal basis(2)			
Ch$	6.63%	7.72%	7.09%
UF	5.76	1.70	3.67
Foreign currency	1.09	1.18	0.41
Total	5.45%	4.39%	4.86%

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

Changes in Net Interest Income Volume and Rate Analysis

The following tables compare, by currency of denomination, changes in our net interest revenue between 2009 and 2010 caused by (i) changes in the average volume of interest earning assets and interest bearing liabilities and (ii) changes in their respective nominal interest rates. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rate, average interest earning assets and average interest bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change in volume and the change in rate.

	Increase (Decrease) from 2008 to 2009 due to changes in Volume	Rate	Net change from 2008 to 2009	Increase (Decrease) from 2009 to 2010 due to changes in Volume	Rate	Net change from 2009 to 2010
			(in millions of Ch$)			
IFRS:						
Assets						
Interest earning assets						

Cash and due from banks						
Ch$	Ch$ 43	Ch$ (417)	Ch$ (374)	Ch$ 4	Ch$ 253	Ch$ 257
UF						
Foreign currency	(210)	(2,614)	(2,824)	(27)	(53)	(80)
Total	(167)	(3,031)	(3,198)	(23)	200	177
Financial investments						
Ch$	(2,627)	(31,230)	(33,857)	(6,890)	(2,095)	(8,985)
UF	18,322	(48,989)	(30,667)	1,215	25,050	26,265
Foreign currency	(293)	2,648	2,355	(256)	(4,543)	(4,799)
Total	15,402	(77,571)	(62,169)	(5,931)	18,412	12,481
Loans in advance to banks						
Ch$	3,532	(13,395)	(9,863)	3,045	(1,319)	1,726
UF						
Foreign currency						
Total	3,532	(13,395)	(9,863)	3,045	(1,319)	1,726
Commercial loans						
Ch$	31,564	(77,792)	(46,228)	21,816	(71,330)	(49,514)
UF	(38,133)	(366,950)	(405,083)	(201)	142,868	142,667
Foreign currency	(6,420)	(21,966)	(28,386)	638	(23,398)	(22,760)
Total	(12,989)	(466,708)	(479,697)	22,253	48,140	70,393
Consumer loans						
Ch$	3,620	1,407	5,027	23,667	(28,407)	(4,740)
UF	838	(4,784)	(3,946)	301	1,757	2,058
Foreign currency						
Total	4,458	(3,377)	1,081	23,968	(26,650)	(2,682)
Residential mortgage loans						
Ch$						
UF	24,520	(268,182)	(243,662)	9,327	120,685	130,012
Foreign currency						
Total	24,520	(268,182)	(243,662)	9,327	120,685	130,012
Repurchase agreement						
Ch$	(3,106)	(340)	(3,446)	4,419	(225)	4,194
UF						
Foreign currency	(12)	(15)	(27)			
Total	(3,118)	(355)	(3,473)	4,419	(225)	4,194
Total interest earning assets						
Ch$	33,026	(121,767)	(88,741)			