BANK OF CHILE
Form 20-F
April 27, 2015
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As filed with the Securities and Exchange Commission on April 27, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

Commission file number 001-15266

BANCO DE CHILE

(Exact name of Registrant as specified in its charter)

BANK OF CHILE

(Translation of Registrant s name into English)

REPUBLIC OF CHILE

(Jurisdiction of incorporation or organization)

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

(562) 2637-1111

(Address of principal executive offices)

Rolando Arias Sánchez

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

Telephone: (562) 2653-3535

Facsimile: (562) 2653-2952

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

Shares of common stock: 94,655,367,544

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

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

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

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

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

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

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

U.S. GAAP ¨ IFRS x Other ¨

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

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

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

natural disasters;

the effect of tax laws on our business; and

the factors discussed under Risk Factors.

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

PRESENTATION OF FINANCIAL INFORMATION

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

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

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

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

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in our audited consolidated financial statements as of and for the year ended December 31, 2014 or could be converted into U.S. dollars at the rate indicated. Until November 30, 2011, Banco de Chile applied the observed exchange rate reported by the Banco Central de Chile (the Central Bank) in order to translate its financial statements from Chilean pesos to U.S. dollars. However, beginning December 1, 2011, Banco de Chile adopted the exchange rate of accounting representation, or spot exchange rate, for such matters. This is also described in Item 3. Key Information Selected Financial Data Exchange Rates. Thus, unless otherwise indicated, the U.S. dollar amounts have been translated from Chilean pesos based on the exchange rate of accounting representation as of December 31, 2014 as determined by our Treasury on a daily basis, based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange. The exchange rate of accounting representation on April 17, 2015 was Ch$612.79 = U.S. $1.00. As of the same date, the observed exchange rate was Ch$612.30 = U.S.$1.00.

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

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

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

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

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

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

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

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

MACRO-ECONOMIC AND MARKET DATA

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

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PART I

Item 1 Identity of Directors, Senior Management and Advisors

Not Applicable.

Item 2 Offer Statistics and Expected Timetable

Not Applicable.

Item 3 Key Information

SELECTED FINANCIAL DATA

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

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

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

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

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

(See footnotes below)

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

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

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

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

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

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

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

(7) Total liabilities divided by bank regulatory capital.

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

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Exchange Rates

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

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

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

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

Source: Central Bank.

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

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

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

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

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

Risks Relating to our Operations and the Chilean Banking Industry

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

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

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

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

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

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

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

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In recent years the Chilean government has focused on consumer protection. Thus, between 2010 and 2014, a number of legal and administrative regulations have been enacted, amended and revoked in order to reinforce consumer protection in all relevant aspects of the financial relationship between consumers and financial institutions. In this regard, and for any other general matters, we cannot assure that regulators will not impose more restrictive limitations in the future on the activities of banks, including us, than those that are currently in effect. Any such change could have a material adverse effect on our results of operations or financial condition in a fashion that we cannot determine in advance. See Item 4. Information on the Company Regulation and Supervision.

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

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

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

Increased competition and industry consolidation may adversely affect our operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: Chilean National Institute of Statistics

Although we benefit from a higher than expected inflation rate in Chile due to the structure of our assets and liabilities (we have a significant net asset position indexed to the inflation rate), significant changes in inflation with respect to current levels could adversely affect our results of operations and, therefore, the value of both our shares and ADSs.

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

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

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

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

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

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

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

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

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

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

Risks Relating to our ADSs

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

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

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

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

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

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

You may be unable to exercise preemptive rights.

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

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

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

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

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

Equity investments held in Chile by non-Chilean residents have historically been subject to various exchange control regulations that restrict the repatriation of investments and earnings from Chile. In April 2001, the Central Bank eliminated most of the regulations affecting foreign investors, although they still have to provide the Central Bank with information related to equity investments and must conduct such operations within the Formal Exchange Market. Additional Chilean restrictions applicable to holders of our ADSs, the disposition of the shares underlying them, the repatriation of the proceeds from such disposition or the payment of dividends may be imposed in the future, and we can neither determine in advance nor advise you as to when or how those restrictions could impact you if imposed.

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

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Risks Relating to Chile

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

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

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

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

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

Our results of operations may be affected by fluctuations in the exchange rates between the Chilean peso and the U.S. dollar despite our policy and Chilean regulations related to the general avoidance of material exchange rate mismatches. In order to reduce the effect of exchange rate mismatches we enter into foreign exchange derivative transactions that hedge our exposure. As of December 31, 2014, our foreign currency-denominated assets and Chilean peso-denominated assets, which contain repayment terms linked to changes in foreign currency exchange rates, exceeded our foreign currency-denominated liabilities and Chilean peso-denominated liabilities, which contain repayment terms linked to changes in foreign currency exchange rates, by an amount of Ch$9,979 million, or 0.42% of our paid-in capital and reserves.

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

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

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

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

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

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

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

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

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

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

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

We are a party to collective bargaining agreements with various labor unions. Disputes with regard to the terms of these agreements or our potential inability to negotiate acceptable contracts with these unions could result in, among other things, strikes, work stoppages, or other slowdowns by the affected workers. If unionized workers were to engage in a strike, work stoppage, or other slowdown, or other employees were to become unionized, we could experience disruption of our operations or higher ongoing labor costs, either of which could have a material adverse effect on our results of operations. See Item 6. Directors, Senior Management and Employees Employees.

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

Item 4 Information on the Company

History and Development of the Bank

Overview

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

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

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

(i) retail banking;

(ii) wholesale banking;

(iii) treasury and money markets; and

(iv) subsidiaries.

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

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

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

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

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

As of December 31, 2014 we had:

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

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

History

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

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

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

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

Merger with Banco de A. Edwards

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

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Merger with Citibank Chile

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

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

Technological Projects

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Expenditures

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

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

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

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

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

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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 peers in Chile, an attractive risk-return relationship and our market leadership in a diverse range of financial products and services.

Our main competitive strengths are:

Brand Recognition and Strong Corporate Image

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

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

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

Business Scale and Leading Market Position

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

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

Source: SBIF and Chilean Association of Mutual Funds.

(1) Excluding operations of subsidiaries abroad.

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

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

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

Broad Customer Base and Nationwide Distribution Network

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

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

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

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

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

Diversified Value Offering of Financial Products and Services

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

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

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

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

Competitive Funding Structure

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

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

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

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

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Superior Asset Quality

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

Our Business Strategy

Purpose

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

Mission

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

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

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

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Vision

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

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

Commitments

We aim to satisfy the expectations of diverse stakeholders by:

Our Customers

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

Our Employees

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

Our Community

- Improving quality of life and managing adversity.

Strengthening the quality of education in Chile.

Promoting entrepreneurship.

Protecting the environment.

Building strong relationships with suppliers.

Our Shareholders

Leading the industry in net income generation and profitability.

Maintaining a strong market position in terms of business volume.

Fostering operating efficiency and productivity.

Developing a prudent approach to risk management.

Strategic Priorities

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

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

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

Lead the Retail Banking Business

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

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

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

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

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

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

Lead the Wholesale Banking Business

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

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

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

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

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

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

Improve Service Quality

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

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

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

Promote Operating Efficiency

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

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

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

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

Enhance our Social Reputation

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

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

Alignment of Human Resources and Culture

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

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

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

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

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Ownership Structure[1]

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

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

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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 lending and non-lending products and services to all segments of the Chilean financial market. Accordingly, for management purposes we organize our operations in the following four business segments:

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

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

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

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

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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 years indicated:

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

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

	For the Year Ended December 31, 2012	2013	2014
BANK S INTERNAL REPORTING POLICIES:		(in millions of Ch$)	
Chile	Ch$ 1,335,862	Ch$ 1,469,110	Ch$ 1,664,185
Banking operations	1,213,229	1,342,592	1,529,235
Operations through subsidiaries	122,633	126,518	134,950
Foreign operations	65	58	14
Operations through subsidiaries	65	58	14
Other (adjustments and eliminations)	(13,873)	(13,143)	(17,797)
Total Operating Revenues	**Ch$ 1,322,054**	**Ch$ 1,456,025**	**Ch$ 1,646,402**

Retail Banking Segment

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

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

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

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

Individual and SME Banking Unit Commercial Division

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

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

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

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

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

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

We offer a variety of financial services to individuals and small and medium-sized companies, directly through the division or indirectly through our subsidiaries, such as current accounts, automatic bill payment, debit cards, credit cards, revolving credit lines, residential mortgage loans, consumer loans, commercial loans, mortgage loans for general purposes, leasing agreements, factoring services, mutual funds management and stock brokerage, support in foreign trade transactions, payments and collections, insurance brokerage (which includes life and casualty insurance), savings instruments and foreign currency services.

Installment Loans

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

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

Residential Mortgage Loans

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

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

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

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

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

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

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

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

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

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

Credit granting Requirements

(in millions of Ch$, except percentages)

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

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

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

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

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

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

(2) LTV ratio is computed as the amount of secured loans divided by the value of their associated collateral.

(3) For other-than-mortgage loans, the LTV ratio is computed as the amount of the excess guarantee (after deductions) of the balance of the associated residential mortgage loans, as those guarantees are initially established in order to secure the residential mortgage loan.

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

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

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

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

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

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

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

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Credit Cards

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

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

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

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

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

Commercial Credits

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

Leasing Contracts

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

Non-Residential Mortgage Loans

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

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Debit Cards

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

Lines of Credit

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

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

Deposit Products

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

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

Consumer Finance Division (Banco CrediChile)

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

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

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

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

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

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

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

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

Consumer Lending

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

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

CuentaChile Demand Accounts

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

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

Wholesale Banking Segment

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

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

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

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

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

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

Corporate Division

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

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

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

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

Other loans	185,444	4.6
Total	**Ch$ 3,991,561**	**100.0%**

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

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

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

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

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

Large Companies and Real Estate Banking Unit Commercial Division

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

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

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

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