BANK OF CHILE
Form 6-K
January 29, 2013
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of January, 2013

Commission File Number 001-15266

BANK OF CHILE

(Translation of registrant s name into English)

Ahumada 251
Santiago, Chile
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

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BANCO DE CHILE
REPORT ON FORM 6-K

Attached Banco de Chile s Financial Statements with notes as of December 31, 2012.

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Consolidated Financial Statements

BANCO DE CHILE AND SUBSIDIARIES

Santiago, Chile
December 31, 2012 and 2011

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Consolidated Financial Statements

BANCO DE CHILE AND SUBSIDIARIES

December 31, 2012 and 2011

(Translation of consolidated financial statements originally issued in Spanish)

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Ch$ or CLP	=	Chilean pesos
MCh$	=	Millions of Chilean pesos
US$ or USD	=	U.S. dollars
ThUS$	=	Thousands of U.S. dollars
JPY	=	Japanese yen
EUR	=	Euro
MXN	=	Mexican pesos
HKD	=	Hong Kong dollars
PEN	=	Peruvian nuevo sol
U.F. or CLF	=	Unidad de fomento (The unidad de fomento is an inflation-indexed, Chilean peso denominated monetary unit set daily in advance on the basis of the previous month s inflation rate).
IFRS	=	International Financial Reporting Standards
IAS	=	International Accounting Standards
RAN	=	Compilation of Standards of the Chilean Superintendency of Banks
IFRIC	=	International Financial Reporting Interpretations Committee
SIC	=	Standards Interpretation Committee

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BANCO DE CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

For the years ended December 31, 2012 and 2011

(Translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

BANCO DE CHILE AND SUBSIDIARIES

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The accompanying notes 1 to 43 form an

integral part of these consolidated financial statements

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BANCO DE CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

For the years ended December 31, 2012 and 2011

(Translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

	Notes	2012 MCh$	2011 MCh$
ASSETS			
Cash and due from banks	7	684,925	881,146
Transactions in the course of collection	7	396,611	373,639
Financial assets held-for-trading	8	192,724	301,771
Receivables from Repurchase agreements and Security Borrowing	9	35,100	47,981
Derivative instruments	10	329,497	385,688
Loans and advances to banks	11	1,343,322	648,425
Loans to customers, net	12	18,334,330	16,993,303
Financial assets available-for-sale	13	1,264,440	1,468,898
Financial assets held-to-maturity	13		
Investments in other companies	14	13,933	15,418
Intangible assets	15	34,290	35,517
Property and equipment	16	205,189	207,888
Current tax assets	17	2,684	1,407
Deferred tax assets	17	127,143	116,282
Other assets	18	296,878	263,584
TOTAL ASSETS		**23,261,066**	**21,740,947**
LIABILITIES			
Current accounts and other demand deposits	19	5,470,971	4,895,426
Transactions in the course of payment	7	159,218	155,424
Payables from Repurchase Agreements and Security Lending	9	226,396	223,202
Savings accounts and time deposits	20	9,612,950	9,282,324
Derivative instruments	10	380,322	429,913
Borrowings from financial institutions	21	1,108,681	1,690,939
Debt issued	22	3,273,933	2,388,341
Other financial obligations	23	162,123	184,785
Current tax liabilities	17	25,880	4,502
Deferred tax liabilities	17	27,630	23,213
Provisions	24	504,837	457,938
Other liabilities	25	301,066	265,765
TOTAL LIABILITIES		**21,254,007**	**20,001,772**
EQUITY	27		
Attributable to Bank s Owners:			
Capital		1,629,078	1,436,083
Reserves		177,574	119,482
Other comprehensive income		18,935	(2,075)
Retained earnings:			
Retained earnings from previous periods		16,379	16,379

Income for the year	465,850	428,805
Less:		
Provision for minimum dividends	(300,759)	(259,501)
Subtotal	2,007,057	1,739,173
Non-controlling interests	2	2
TOTAL EQUITY	**2,007,059**	**1,739,175**
TOTAL LIABILITIES AND EQUITY	**23,261,066**	**21,740,947**

The accompanying notes 1 to 43 form an

integral part of these consolidated financial statements

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BANCO DE CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended December 31, 2012 and 2011

(Translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

A. CONSOLIDATED STATEMENT OF INCOME

	Notes	2012 MCh$	2011 MCh$
Interest revenue	28	1,661,467	1,495,529
Interest expense	28	(708,629)	(624,209)
Net interest income		952,838	871,320
Income from fees and commissions	29	372,767	367,966
Expenses from fees and commissions	29	(65,510)	(59,193)
Net fees and commission income		307,257	308,773
Net financial operating income	30	24,747	26,927
Foreign exchange transactions, net	31	35,136	(7,973)
Other operating income	36	22,061	24,735
Total operating revenues		1,342,039	1,223,782
Provisions for loan losses	32	(188,190)	(124,840)
OPERATING REVENUES, NET OF PROVISIONS FOR LOAN LOSSES		1,153,849	1,098,942
Personnel expenses	33	(312,065)	(316,991)
Administrative expenses	34	(247,459)	(229,919)
Depreciation and amortization	35	(30,957)	(30,711)
Impairment	35	(899)	(631)
Other operating expenses	37	(42,439)	(35,596)
TOTAL OPERATING EXPENSES		(633,819)	(613,848)
NET OPERATING INCOME		520,030	485,094
Income attributable to associates	14	(229)	3,300
Income before income tax		519,801	488,394
Income tax	17	(53,950)	(59,588)
NET INCOME FOR THE YEAR		465,851	428,806
Attributable to:			
Bank s Owners		465,850	428,805
Non-controlling interests		1	1
		Ch$	**Ch$**

Net income per share attributable to Bank s Owners:			
Basic net income per share	27	5.28	5.01
Diluted net income per share	27	5.28	5.01

The accompanying notes 1 to 43 form an

integral part of these consolidated financial statements

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BANCO DE CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended December 31, 2012 and 2011

(Translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

B. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	2012 MCh$	2011 MCh$
NET INCOME FOR THE YEAR		465,851	428,806
OTHER COMPREHENSIVE INCOME			
Net unrealized gains (losses):			
Net change in unrealized gains (losses) on available for sale instruments	13	24,510	(9,484)
Gains and losses on derivatives held as cash flow hedges		1,777	(485)
Cumulative translation adjustment		(58)	68
Other comprehensive income before income taxes		26,229	(9,901)
Income tax related to other comprehensive income	17	(5,220)	1,956
Total other comprehensive income		21,009	(7,945)
TOTAL CONSOLIDATED COMPREHENSIVE INCOME		486,860	420,861
Attributable to:			
Bank s owners		486,859	420,860
Non-controlling interest		1	1
		Ch$	**Ch$**
Comprehensive net income per share attributable to Bank s owners:			
Basic net income per share		5.52	4.92
Diluted net income per share		5.52	4.92

The accompanying notes 1 to 43 form an

integral part of these consolidated financial statements

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BANCO DE CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31, 2012 and 2011

(Translation of financial statements originally issued in Spanish)

(Expressed in millions of Chilean pesos)

			Reserves		Other comprehensive income			Retained earnings				
	Notes	Paid-in Capital MCh$	Other reserves MCh$	Reserves from earnings MCh$	Unrealized gains (losses) on available-for- sale MCh$	Derivatives cash flow hedge MCh$	Cumulative translation adjustment MCh$	Retained earnings from previous periods MCh$	Income for the year MCh$	Provision for minimum dividends MCh$	Attributable to equity holders of the parent MCh$	Non-controllin interest MCh$
Balances as of December 31, 2010		**1,158,752**	**32,256**	**55,130**	**5,974**		**(104)**	**16,091**	**378,529**	**(242,503)**	**1,404,125**	
Capitalization of retained earnings	27	67,217							(67,217)			
Income retention (released) according to law				32,096					(32,096)			
Paid and distributed dividends	27								(279,216)	242,503	(36,713)	
Subscription and payment of shares	27	210,114									210,114	
Other comprehensive income:	27											
Cumulative translation adjustment							68				68	
Derivatives cash flow hedge, net						(395)					(395)	
Valuation adjustment on available-for-sale instruments (net)					(7,618)						(7,618)	
Equity adjustment in subsidiary								288			288	
Income for the period 2011									428,805		428,805	
Provision for minimum dividends	27									(259,501)	(259,501)	
Balances as of December 31, 2011		**1,436,083**	**32,256**	**87,226**	**(1,644)**	**(395)**	**(36)**	**16,379**	**428,805**	**(259,501)**	**1,739,173**	

Capitalization of retained earnings	27	73,911							(73,911)		
Income retention (released) according to law				58,092					(58,092)		
Paid and distributed dividends	27								(296,802)	259,501	(37,301)
Other comprehensive income:	27										
Cumulative translation adjustment							(58)				(58)
Derivatives cash flow hedge, net						1,429					1,429
Valuation adjustment on available-for-sale instruments (net)					19,639						19,639
Subscription and payment of shares	27	119,084									119,084
Income for the period 2012									465,850		465,850
Provision for minimum dividends	27									(300,759)	(300,759)
Balances as of December 31, 2012		**1,629,078**	**32,256**	**145,318**	**17,995**	**1,034**	**(94)**	**16,379**	**465,850**	**(300,759)**	**2,007,057**

The accompanying notes 1 to 43 form an

integral part of these consolidated financial statements

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BANCO DE CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2012 and 2011

(Translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

	Notes	2012 MCh$	2011 MCh$
OPERATING ACTIVITIES:			
Net income for the year		465,851	428,806
Items that do not represent cash flows:			
Depreciation and amortization	35	30,957	30,711
Impairment of intangibles assets and property and equipment	35	899	631
Provision for loan losses, net of recoveries	32	225,631	141,910
Provision of contingent loans	32	1,251	5,219
Fair value adjustment of financial assets held-for-trading		931	(1,242)
(Income) loss attributable to investments in other companies	14	468	(3,054)
(Income) loss sales of assets received in lieu of payment	36	(5,674)	(5,918)
(Income) loss on sales of property and equipment		(318)	(1,311)
(Increase) decrease in other assets and liabilities		34,555	131,430
Charge-offs of assets received in lieu of payment	37	2,600	3,495
Other credits (debits) that do not represent cash flows		1,721	(8,143)
(Gain) loss from foreign exchange transactions of other assets and other liabilities		37,133	17,296
Net changes in interest and fee accruals		4,049	(60,589)
Changes in assets and liabilities that affect operating cash flows:			
(Increase) decrease in loans and advances to banks, net		(695,376)	(298,023)
(Increase) decrease in loans to customers, net		(1,529,338)	(3,024,978)
(Increase) decrease in financial assets held-for-trading, net		52,892	9,203
(Increase) decrease in deferred taxes, net	17	(6,444)	(8,201)
Increase (decrease)in current account and other demand deposits		576,301	447,990
Increase (decrease) in payables from repurchase agreements and security lending		(15,277)	196,821
Increase (decrease) in savings accounts and time deposits		327,980	1,540,523
Proceeds from sale of assets received in lieu of payment		9,510	10,221
Total cash flows provided by (used in) operating activities		(479,698)	(447,203)
INVESTING ACTIVITIES:			
(Increase) decrease in financial assets available-for-sale		295,572	(460,773)
Purchases of property and equipment	16	(17,981)	(22,073)
Proceeds from sales of property and equipment		400	1,711
Purchases of intangible assets	15	(9,116)	(9,597)
Investments in other companies	14	(71)	
Dividends received from investments in other companies	14	943	761
Total cash flows provided by (used in) investing activities		269,747	(489,971)
FINANCING ACTIVITIES:			
Increase in mortgage finance bonds			
Repayment of mortgage finance bonds		(27,529)	(38,433)

Proceeds from bond issuances	22	1,233,985	749,586
Redemption of bond issuances		(389,382)	(109,624)
Proceeds from subscription and payment of shares	27	119,084	210,114
Dividends paid	27	(296,802)	(279,216)
Increase (decrease) in borrowings from financial institutions		142,573	(7,916)
Increase (decrease) in other financial obligations		(16,512)	11,491
Increase (decrease) in Borrowings from Central Bank		(22,793)	22,759
Proceeds from borrowings with Central Bank of Chile (long-term)		20	91
Payment of borrowings from Central Bank (long-term)		(56)	(106)
Proceeds from foreign borrowings		325,247	805,594
Payment of foreign borrowings		(1,013,911)	(446,448)
Proceeds from other long-term borrowings		1,526	3,894
Payment of other long-term borrowings		(7,363)	(9,811)
Total cash flows provided by (used in) financing activities		48,087	911,975
TOTAL NET POSITIVE (NEGATIVE) CASH FLOWS FOR THE YEAR		(161,864)	(25,199)
Net effect of exchange rate changes on cash and cash equivalents		(31,720)	7,412
Cash and cash equivalents at beginning of year		1,429,908	1,447,695
Cash and cash equivalents at end of year	7	1,236,325	1,429,908

	2012 MCh$	**2011 MCh$**
Operating cash flow of Interest:		
Interest received	1,614,122	1,356,265
Interest paid	(657,235)	(545,534)

The accompanying notes 1 to 43 form an

integral part of these consolidated financial statements

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BANCO DE CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2012 and 2011

(Translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

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1. Company Information:

Banco de Chile is authorized to operate as a commercial bank from September 17, 1996, and according to the Article 25 of the Law 19.396 is the legal continuer of the Banco de Chile, which in turn resulted from the merger between Banco Nacional of Chile, Banco Agricola y Banco de Valparaiso. Banco de Chile was formed on October 28, 1893, granted in front of the Public Notary of Santiago Mr. Eduardo Reyes Lavalle, authorized by Supreme Decree of November 28, 1893.

Banco de Chile (Banco de Chile or the Bank) is a Corporation organized under the laws of the Republic of Chile, regulated by the Superintendency of Banks and Financial Institutions (SBIF). Since 2001, - when the bank was first listed on the New York Stock Exchange (NYSE), in the course of its American Depository Receipt (ADR) program, which is also registered at the London Stock Exchange Banco de Chile additionally follows the regulations published by the United States Securities and Exchange Commission (SEC), Banco de Chile s shares are also listed on the Latin American securities market of the Madrid Stock Exchange (LATIBEX).

Banco de Chile offers a broad range of banking services to its customers, ranging from individuals to large corporations. The services are managed in large corporate banking, middle and small corporate banking, personal banking services and retail. Additionally, the Bank offers international as well as treasury banking services. The Bank s subsidiaries provide other services including securities brokerage, mutual fund and investment management, factoring, insurance brokerage, financial advisory and securitization.

Banco de Chile s legal domicile is Ahumada 251, Santiago, Chile and its Web site is www.bancochile.cl.

The consolidated financial statements of the Bank for the year ended December 31, 2012 were authorized for issuance in accordance with the directors resolution on January 24, 2013.

For the convenience of the reader, these financial statements and their accompanying notes have been translated from Spanish to English. Certain accounting practices applied by the Bank that conform to rules issued by the Chilean Superintendency of Banks (SBIF) may not conform to generally accepted accounting principles in the United States (US GAAP) or to International Financial Reporting Standards.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles:

(a) Basis of preparation:

Legal provisions

The General Banking Law in its Article No. 15 authorizes the Chilean Superintendency of Banks (SBIF) to issue generally applicable accounting standards for entities it supervises. The Corporations Law, in turn, requires generally accepted accounting principles to be followed.

Based on the aforementioned laws, banks should use the criteria provided by the Superintendency in accordance with the Compendium of Accounting Standards, and any matter not addressed therein, as long as it does not contradict its instructions, should adhere to generally accepted accounting principles in technical standards issued by the Chilean Association of Accountants, that coincide with International Accounting Standards and International Financial Reporting Standards agreed upon by the International Accounting Standards Board (IASB). Should there be discrepancies between these generally accepted accounting principles and the accounting criteria issued by the SBIF, the latter shall prevail.

(b) Basis of consolidation:

The financial statements of Banco de Chile as of December 31, 2012 and 2011 have been consolidated with its Chilean subsidiaries and foreign subsidiary using the global integration method (line-by-line). They comprise the preparation of the individual financial statements of the Bank and of the companies that participate in the consolidation, and include the adjustments and reclassifications necessary to homologue the accounting policies and valuation criteria applied by the Bank, in accordance with the established standards. The Consolidated Financial Statements have been prepared using the same accounting policies for similar transactions and other events in equivalent circumstances.

Significant intercompany transactions and balances originated by operations performed between the Bank and its subsidiaries and between the latter have been eliminated in the consolidation process. The non-controlling interest corresponding to the participation percentage of third parties in subsidiaries, which the Bank does not own directly or indirectly, has been recognized and is shown separately in the consolidated shareholders equity of Banco de Chile.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(b) Basis of consolidation, continued:

(i) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of the entity for the purpose of obtaining benefits from its activities. When evaluating control, one considers the potential voting rights that are currently executable. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control begins and until control is last.

The entities controlled by the Bank and which form parts of the consolidation are detailed as follows:

RUT	Subsidiaries	Country	Functional Currency	Interest Owned Direct 2012 %	Direct 2011 %	Indirect 2012 %	Indirect 2011 %	Total 2012 %	Total 2011 %
44,000,213-7	Banchile Trade Services Limited	Hong Kong	US$	100.00	100.00			100.00	100.00
96,767,630-6	Banchile Administradora General de Fondos S.A.	Chile	Ch$	99.98	99.98	0.02	0.02	100.00	100.00
96,543,250-7	Banchile Asesoría Financiera S.A.	Chile	Ch$	99.96	99.96			99.96	99.96
77,191,070-K	Banchile Corredores de Seguros Ltda.	Chile	Ch$	99.83	99.83	0.17	0.17	100.00	100.00
96,894,740-0	Banchile Factoring S.A.	Chile	Ch$	99.75	99.75	0.25	0.25	100.00	100.00
96,571,220-8	Banchile Corredores de Bolsa S.A.	Chile	Ch$	99.70	99.70	0.30	0.30	100.00	100.00
96,932,010-K	Banchile Securitizadora S.A.	Chile	Ch$	99.00	99.00	1.00	1.00	100.00	100.00
96,645,790-2	Socofin S.A.	Chile	Ch$	99.00	99.00	1.00	1.00	100.00	100.00
96,510,950-1	Promarket S.A.	Chile	Ch$	99.00	99.00	1.00	1.00	100.00	100.00

(ii) Associates:

An associate is an entity where the Bank has significant influence over their operating and financial management policy decisions, but in which it does not hold a controlling interest. Significant influence is generally presumed when the Bank holds between 20% and 50% of the voting rights. The existences of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank has significant influence. Investments in associates are accounted for using the equity method. Other factors considered when determining whether the Bank has significant influence over another entity are the representation on the board of directors and the existence of material intercompany transactions. The existence of these factors could require the application of the equity method for a particular investment even though the Bank s holdings are for less than 20% of the voting stock.

In accordance with the equity method, the Bank s investments are initially recorded at cost, and subsequently increased or decreased to reflect the proportional participation of the Bank in the net income or loss of the associate and other movements recognized in its shareholders equity. Goodwill arising from the acquisition of an associate is included in the net book value, net of any accumulated impairment loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(b) Basis of consolidation, continued:

(iii) Shares or rights in other companies

These are entities in which the Bank does not have significant influence. They are presented at acquisition value (historical cost).

(iv) Special purpose entities

According to current regulation, the Bank must be analyzing continuously its consolidation area, considering that the principal criteria are the control that the Bank has in a entity and not its percentage of equity participation.

Special purpose entities (SPEs) are generally created to comply with a specific and well-defined objective, such as securitizing specific assets or carrying out a specific loan transaction. A SPE is consolidated if, based on an assessment of its relationship with the Bank and the risks and benefits of the SPE, the Bank concludes that it has control. As of December 31, 2012 and 2011, the Bank does not control any SPEs.

(v) Fund management

The Bank manages assets maintained in common investment funds and other investment products on behalf of investors. Different entities which conform consolidation group of Banco de Chile (Banchile Administradora General de Fondos S.A. and Banchile Securitizador S.A) and owned by third parties are not included in Consolidated Statements of Financial Position, unless the Bank has the control. As of December 31, 2012 and 2011, the Bank does not control or consolidate any of these funds.

Fees generates by this activity are included in the item Income from fees and commissions of Consolidates Statements of Comprehensive Income.

(c) Non-controlling interest

Non-controlling interest represents the share of losses, income and net assets that the Bank does not control neither directly or indirectly. It is presented as a separate item in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(d) Use of estimates and judgment

The Consolidated Financial Statements include estimates made by the Senior Management of the Bank and of the consolidated entities to quantify certain of the assets, liabilities, income, expenses and commitments that are recorded in them. Basically, these estimates are made in function of the best information available, and refer to:

1. Goodwill valuation (Note 15);
2. Useful lives of property and equipment and intangible assets (Note 15 and 16);
3. Income taxes and deferred taxes (Note 17);
4. Provisions (Note 24);
5. Commitments and contingencies (Note 26);
6. Provision for loan losses (Note 32);
7. Impairment of other financial assets (Note 35);
8. Fair value of financial assets and liabilities (Note 39)

During the year ended December 31, 2012, there have been no significant changes in the estimates made as of 2011 year-end, other than those indicated in these Consolidated Financial Statements.

(e) Financial asset and liability valuation criteria:

Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the Statement of Financial Position and the Comprehensive Income. This involves selecting the particular basis or method of measurement.

In the Consolidated Financial Statements several measuring bases are used with different levels mixed among them. These bases or methods include the following:

(i) Recognition

Initially, the Bank and its subsidiaries recognize loans to customers, trading and investment securities, deposits, debt issued and subordinated liabilities on the date they originated. Purchases and sales of financial assets performed on a regular basis are recognized as of the trade date on which the Bank committed to purchase or sell the asset. All other assets and liabilities (including assets and liabilities at fair value through profit and loss) are initially recognized as of the trade date on which the Bank becomes a party to the contractual provisions of the instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

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2. Summary of Significant Accounting Principles, continued:

(e) Asset and liability valuation criteria, continued:

(ii) Classification

Assets, liabilities and income accounts have been classified in conformity with standards issued by the Superintendency of Banks.

(iii) Derecognition

The Bank and its subsidiaries derecognize a financial asset (or where applicable part of a financial asset) from its Consolidated Statement of Financial Position when the contractual rights to the cash flows of the financial asset have expired or when the contractual rights to receive the cash flows of the financial asset are transferred during a transaction in which all ownership risks and rewards of the financial asset are transferred. Any portion of transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank derecognizes a financial liability (or a portion thereof) from its Consolidated Statement of Financial Position if, and only if, it has extinguished or, in other words, when the obligation specified in the corresponding contract has been paid or settled or has expired.

When the Bank transfers a financial asset, it assesses to what extent it has retained the risks and rewards of ownership. In this case:

(a) If substantially all risks and rewards of ownership of the financial asset have been transferred, it is derecognized, and any rights or obligations created or retained upon transfer are recognized separately as assets or liabilities.

(b) If substantially all risks and rewards of ownership of the financial asset have been retained, the Bank continues to recognize it.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(e) Asset and liability valuation criteria, continued:

(iii) Derecognition, continued:

(c) If substantially all risks and rewards of ownership of the financial asset are neither transferred nor retained, the Bank will determine if it has retained control of the financial asset. In this case:

(i) If it has not retained control, the financial asset will be derecognized, and any rights or obligations created or retained upon transfer will be recognized separately as assets or liabilities.

(ii) If the entity has retained control, it will continue to recognize the financial asset in the Consolidated Financial Statement by an amount equal to its exposure to changes in value that can experience and recognize a financial liability associated to the transferred financial asset.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position if, and only if, the Bank has the legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or to realize an asset and settle the liability simultaneously.

Income and expenses are shown net only if accounting standards allow such treatment, or in the case of gains and losses arising from a group of similar transactions such as the Bank s trading activities.

(v) Valuation at amortized cost

Amortized cost is the amount at which a financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization (calculated using the effective interest rate method) of any difference between that initial amount and the maturity amount and minus any reduction for impairment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

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2. Summary of Significant Accounting Principles, continued:

(e) Asset and liability valuation criteria, continued:

(vi) Fair value measurements

Fair value of a financial instrument in determinated date is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm s length transaction. The most objective and common fair value of a financial instrument is the price you paid for it on an active, transparent and deep market (quoted price or market price).

When available, the Bank estimates the fair value of an instrument using quoted prices in an active market for that instrument. A market is considered active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm s length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. These valuation techniques include the use of recent market transactions between knowledgeable, willing parties in an arm s length transaction, if available, as well as references to the fair value of other instruments that are substantially the same, discounted cash flows and options pricing models.

The chosen valuation technique use the maximum observable market data, relies as little as possible on estimates performed by the Bank, incorporates factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Inputs into the valuation technique reasonably represent market expectations and include risk and return factors that are inherent in the financial instrument. Periodically, the Bank calibrates the valuation technique and tests it for validity using prices from observable current market transaction in the same instrument or based on any available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in income depending on the individual facts and circumstances of the transaction but not later than the valuation is supported wholly by observable market data or the transaction is closed out.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(e) Asset and liability valuation criteria, continued:

(vi) Fair value measurements, continued:

Generally, the Bank has assets and liabilities that offset each other s market risks. In these cases, average market prices are used as a basis for establishing these values. In the case of open positions, the Bank applies the current offer or buyer price, as appropriate, for the net open position.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third-party market participant would take them into account in pricing a transaction.

The available-for-sale instruments market valuation process consists in changing the rate from an average rate of sale (mid-rate) at the rate of sale of these instruments (offer-rate).

When the transaction price is different from the fair value derived from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in Net financial operating income . In cases where fair value is determined using data that is not observable, the difference between the transaction price and model value is only recognized in the Consolidated Statement of Comprehensive Income when the inputs become observable, or when the document is derecognized.

The Bank s fair value disclosures are included in Note 39.

(f) Presentation and functional currency

The items included in the financial statements of each of the entities of Banco de Chile and its subsidiaries are valued using the currency of the primary economic environment in which it operates (functional currency). The functional currency of Banco de Chile is the Chilean peso, which is also the currency used to present the entity s consolidated financial statements, that is the currency of the primary economic environment in which the Bank operates, as well as obeying to the currency that influences in the costs and income structure.

(g) Transactions in foreign currency

Transactions in currencies other than the functional currency are considered to be in foreign currency and are initially recorded at the exchange rate of the functional currency on the transaction date. Monetary assets and liabilities denominated in foreign currencies are converted using the exchange rate of the functional currency as of the date of the Statement of Financial Position. All differences are recorded as a debit or credit to income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(g) Transactions in foreign currency, continued:

As of December 31, 2012, the Bank applied the exchange rate of accounting representation according to the standards issued by the Superintendency of Banks, where assets expressed in dollars are shown to their equivalent value in Chilean pesos calculated using the following exchange rate of Ch$479.47 to US$1. As of December 31, 2011, the Bank used the observed exchange rate equivalent to Ch$519.80 to US$1.

The gain of MCh$35,136 for net foreign exchange income (income of MCh$7,973 in 2011) shown in the Consolidated Statement of Comprehensive Income, includes recognition of the effects of exchange rate variations on assets and liabilities in foreign currency or indexed to exchange rates, and the result of foreign exchange transactions conducted by the Bank and its subsidiaries.

(h) Segment reporting:

The Bank s operating segments are determined based on its different business units, considering the following factors:

(i) That it conducts business activities from which income is obtained and expenses are incurred (including income and expenses relating to transactions with other components of the same entity).

(ii) That its operating results are reviewed regularly by the entity s highest decision-making authority for operating decisions, to decide about resource allocation for the segment and evaluate its performance; and

(iii) That separate financial information is available.

(i) Cash and cash equivalents:

The Consolidated Statement of Cash Flows shows the changes in cash and cash equivalents derived from operating activities, investment activities and financing activities during the year. The indirect method has been used in the preparation of this statement.

For the preparation of Consolidated Financial Statements of Cash Flow it is considered the following concepts:

(i) Cash and cash equivalents correspond to Cash and Bank Deposits , plus (minus) the net balance of transactions in the course of collection that are shown in the Consolidated Statement of Financial Position, plus instruments held-for-trading and available-for-sale that are highly liquid and have an insignificant risk of change in value, maturing in less than three months from the date of acquisition, plus repurchase agreements that are in that situation. Also includes investments in fixed income mutual funds that are presented under Trading Instruments in the Consolidated Statement of Financial Position.

(ii) Operating activities: corresponds to normal activities of banks, as well as other activities that cannot classified like investing or financing activities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

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2. Summary of Significant Accounting Principles, continued:

(i) Cash and cash equivalents, continued:

(iii) Investing activities: correspond to the acquisition, sale or disposition other forms, of long-term assets and other investments that not include in cash and cash equivalent.

(iv) Financing activities: corresponds to the activities that produce changes in the amount and composition of the equity and the liabilities that are not included in the operating or investing activities.

(j) Financial assets held-for-trading:

Financial assets held-for-trading consist of securities acquired with the intention of generating profits as a result of short-term prices fluctuation or as a result of brokerage activities, or are part of a portfolio on which a short-term profit-generating pattern exists.

Financial assets held-for-trading are stated at their fair market value as of the Consolidated Statement of Financial Position date. Gains or losses from their fair market value adjustments, as well as gains or losses from trading activities, are included in Gains (losses) from trading and brokerage activities in the Consolidated Statement of Comprehensive Income. Accrued interest and revaluations are reported as Gains (losses) from trading and brokerage activities .

All purchases and sales of financial assets held-for-trading that must be delivered within the period established by market regulations or conventions are recorded using the trade date, which is the date on which the purchase or sale of the asset is committed. Any other purchase or sale is treated as a derivative (forward) until settlement occurs.

(k) Repurchase agreements and security lending and borrowing transactions:

The Bank engages in transactions with repurchase agreements as a form of investment. The securities purchased under these agreements are recognized on the Bank s Consolidated Statement of Financial Position under Receivables from Repurchase Agreements and Security Lending , which is valued in accordance with the agreed-upon interest rate.

The Bank also enters into security repurchase agreements as a form of financing. Investments that are sold subject to a repurchase obligation and serve as collateral for borrowings are reclassified as Financial Assets held-for-trading or Available-for-sale Instruments . The liability to repurchase the investment is classified as Payables from Repurchase Agreements and Security Lending , which is valued in accordance with the agreed-upon interest rate.

(l) Derivative instruments:

Derivative instruments, which include foreign currency and U.F. forwards, interest rate forwards, currency and interest rate swaps, currency and interest rate options and other financial derivative instruments, are recorded in the Consolidated Statement of Financial Position at their cost (included transactions costs) and subsequently measured at fair value. Derivative instruments are reported as an asset when their fair value is positive and as a liability when negative under the item Derivative Instruments .

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(l) Derivative instruments, continued:

Changes in fair value of derivative contracts held for trading purpose are included under Profit (loss) net of financial operations , in the Consolidated Statement of Comprehensive Income.

Certain embedded derivatives in other financial instruments are treated as separate derivatives when their risk and characteristics are not closely related to those of the main contract and if the contract in its entirety is not recorded at its fair value with its unrealized gains and losses included in income.

At inception, a derivative contract must be designated by the Bank as a derivative instrument for trading or hedging purposes.

If a derivative instrument is classified as a hedging instrument, it can be:

(1) A hedge of the fair value of existing assets or liabilities or firm commitments, or

(2) A hedge of cash flows related to existing assets or liabilities or forecasted transactions.

A hedge relationship for hedge accounting purposes must comply with all of the following conditions:

(a) at its inception, the hedge relationship has been formally documented;

(b) it is expected that the hedge will be highly effective;

(c) the effectiveness of the hedge can be measured in a reasonable manner; and

(d) the hedge is highly effective with respect to the hedged risk on an ongoing basis and throughout the entire hedge relationship.

Certain derivatives transactions that do not qualify for hedge accounting are treated and reported as derivatives for trading purposes even though they provide an effective hedge on the risk of net positions.

When a derivative instrument hedges the risk of changes in the fair value of an existing asset or liability, the asset or liability is recorded at its fair value with respect to the specific hedged risk. Gains or losses from fair value adjustments, both the hedged item and the derivative instrument, are recognized in income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(l) Derivative instruments, continued:

Should the hedged item in a fair value hedge be a firm commitment, changes in the fair value of the commitment with respect to the hedged risk are recorded as an asset or liability against net income for the year. Gains or losses from fair value adjustments of the hedging derivative are recorded in income. When an asset or liability is acquired as a result of the commitment, the initial recognition of the asset or liability acquired is adjusted to incorporate the accumulated effect of the valuation at fair value of the firm commitment, which was previously recorded in the Consolidated Statement of Financial Position.

When a derivative hedges the risk of changes in the cash flows of existing assets or liabilities or forecasted transactions, the effective portion of changes in the fair value related to the hedged risk is recorded in equity net of income taxes. Any ineffective portion is directly recorded in income. The accumulated amounts recorded in equity are transferred to income at the moment that the hedge item affects income.

When an interest rate fair value hedge is performed on a portfolio basis and the hedged item is an amount instead of individualized assets or liabilities, or gains or losses from fair value adjustments, both the hedged portfolio and the derivative instrument are recorded in income, but the fair value adjustment of the hedged portfolio is reported in the Consolidated Statement of Financial Position under Other assets or Other liabilities , according to the position of the portfolio hedged at this moment.

(m) Loans to customers:

Loans to customers include originated and purchased non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and which the Bank does not intend to sell immediately or in the short-term.

(i) Valuation method

Loans are initially measured at cost plus incremental transaction costs, and subsequently measured at amortized cost using the effective interest rate method, except when the Bank defined some loans as hedged items, which are measured at fair value, changes are recorded in the Consolidated Statement of Income, as described in letter (l) of this note.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(m) Loans to customers, continued:

(ii) Lease contracts:

Accounts receivable for leasing contracts, included under the caption Loans to customers are recorded MCh$1,113,272 as of December 31, 2012 (MCh$996,566 in 2011), correspond to periodic rent installments of contracts which meet the definition to be classified as financial leases and are presented at their nominal value net of unearned interest as of each year-end.

(iii) Factoring transactions:

The Bank and its subsidiary Banchile Factoring S.A. carry out factoring transactions, where they receive invoices and other commercial instruments representative of credit, with or without recourse, and they advance to the assignor a percentage of the total amounts to be collected from the original debtor.

As of December 31, 2012, the item Loans to customers includes MCh$606,137 (MCh$589,098 in 2011), corresponding to the amount advanced to the assignor, plus accrued interest net of payments received.

(iv) Impairment of loans

The impaired portfolio includes loans of debtors for which there is evidence that they will not fulfill some of their obligations on the agreed upon payment conditions without the possibility of recovering what is owed, having to recur to the guarantees, through exercising judicial payment actions or agreeing upon other conditions.

The following are certain situations that constitute evidence that the debtors will not fulfill their obligations with the Bank in accordance with what has been agreed upon, and that their loans are impaired:

- Evident financial difficulties of the debtor or significant worsening of their credit quality.

- Notorious indicators that the debtor will go into bankruptcy or into a forced restructuring of debts or that effectively bankruptcy or a similar measure has been filed in relation to their payment obligations, including delaying or non-payment of obligations.

- Forced restructuring of a loan due to economic or legal factors related to the debtor, whether by decreasing the payment obligation or delaying the principal, interest or commissions.

- The obligations of the debtor are negotiated with a significant loss due to the vulnerability of the debtor s payment capacity.

- Adverse changes produced in the technological, market, economic or legal area in which the debtor operates, which potentially compromise the debtor s payment capacity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

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2. Summary of Significant Accounting Principles, continued:

(m) Loans to customers, continued:

(iv) Impairment of loans, continued

In any case, when dealing with debtors subject to individual assessment, are considered in impaired portfolio all credits of debtors classified in some the Non-complying Loans categories, as well as in categories B3 and B4 of Substandard Portfolio. Also, being subject to assessment debtors group, the impaired portfolio includes all credits of the Non-complying loans.

The Bank incorporates the loans to impaired portfolio and keeps them in that portfolio, until it is not observed a normalization of the capacity or conduct of payment.

(v) Allowance for loan losses

Allowances are required to cover the risk of loan losses have been established in accordance with the instructions issued by the Superitendency of Banks. The loans are presented net of those allowances or showing the reduction, in the case of loans and in the case of contingent loans, they are shown in liabilities under Provisions .

In accordance with what is stipulated by the Superintendency of Banks, models or methods are used based on an individual and group analysis of debtors, to establish allowance for loan losses.

(v.i) Allowance for individual evaluations

An individual analysis of debtors is applied to individuals and companies that are of such significance with respect to size, complexity or level of exposure to the bank, that they must be analyzed in detail.

Likewise, the analysis of borrowers should focus on its ability to payment, to have sufficient and reliable information, and to analyze in regard to guarantees, terms, interest rates, currency and revaluation, etc.

For purposes of establish the allowances and before the assignment to one of three categories of loans portfolio: Normal, Substandard and Non-complying Loans, it must classify the debtors and their operations related to loans and contingent loans in the categories that apply..

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(m) Loans to customers, continued:

(v) Allowance for loan losses, continued:

(vi) Allowance for individual evaluations, continued:

vi.1 Normal Loans and Substandard Loans:

Normal loans correspond to borrowers who are up to date on their payment obligations and show no sign of deterioration in their credit quality. Loans classified in categories A1 through A6.

Substandard loans includes all borrowers with insufficient payment capacity or significant deterioration of payment capacity that may be reasonably expected not to comply with all principal and interest payments obligations set forth in the credit agreement.

This category also includes all loans that have been non-performing for more than 30 days. Loans classified in this category are B1 through B4.

As a result of individual analysis of the debtors, the banks must classify them in the following categories, assigning, subsequently, the percentage of probability of default and loss given default resulting in the corresponding percentage of expected loss:

Classification	Category	Probability of default (%)	Loss given default (%)	Expected loss (%)
	A1	0.04	90.0	0.03600
	A2	0.10	82.5	0.08250
Normal Loans	A3	0.25	87.5	0.21875
	A4	2.00	87.5	1.75000

	A5	4.75	90.0	4.27500
	A6	10.00	90.0	9.00000
Substandard Loans	B1	15.00	92.5	13.87500
	B2	22.00	92.5	20.35000
	B3	33.00	97.5	32.17500
	B4	45.00	97.5	43.87500

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

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2. Summary of Significant Accounting Principles, continued:

(m) Loans to customers, continued:

(v) Allowance for loan losses, continued:

(vi) Allowance for individual evaluations, continued:

vi.1 Normal Loans and Substandard Loans, continued:

Allowances for Normal and Substandard Loans

To determine the amount of allowances to be constitute for normal and substandard portfolio, previously should be estimated the exposure to subject to the allowances, which will be applied to respective expected loss (expressed in decimals), which consist of probability of default (PD) and loss given default (LGD) established for the category in which the debtor and/or guarantor belong, as appropriate.

The exposure affects to allowances applicable to loans plus contingent loans minus the amounts to be recovered by way of the foreclosure of guarantees. Loans means the book value of credit of the respective debtor, while for contingent loans, the value resulting from to apply the indicated in No.3 of Chapter B-3 of Compilation of Standards of the Chilean Superintendency of Banks (RAN).

The banks must use the following equation:

Provision = (ESA-GE) x (PD debtor /100)x(LGD debtor/100)+GE x(PD guarantor/100)x(LGD guarantor /100)

Where:

ESA	= Exposure subject to allowances
GE	= Guaranteed exposure
EAP	= (Loans + Contingent Loans) Financial Guarantees

However, independent of the results obtained from the equation above, the bank must be assigned a minimum provision level of 0.5% of the Normal Loans (including contingent loans).

vi.2 Non-complying Loans

The non-complying loans corresponds to borrowers and its credits whose payment capacity is seriously at risk and who have a high likelihood of filing for bankruptcy or are renegotiating credit terms to avoid bankruptcy. This category comprises all loans and contingent loans outstanding from debtors that have at least one installment payment of interest or principal overdue for 90 days or more. This group is composed of debtors belonging to categories C1 through C6 of the classification level and all loans, inclusive contingent loans, which maintain the same debtors.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(m) Loans to customers, continued:

(v) Allowance for loan losses, continued:

(vi) Allowance for individual evaluations, continued:

vi.2 Non-complying Loans, continued:

For purposes to establish the allowances on the non-complying loans, the Bank dispose the use of percentage of allowances to be applied on the amount of exposure, which corresponds to the amount of loans and contingent loans that maintain the same debtor. To apply that percentage, must be estimated a expected loss rate, less the amount of the exposure the recoveries by way of foreclosure of guarantees and, if there are available specific background, also must be deducting present value of recoveries obtainable exerting collection actions, net of expenses associated with them. This loss percentage must be categorized in one of the six levels defined by the range of expected actual losses by the Bank for all transactions of the same debtor.

These categories, their range of loss as estimated by the Bank and the percentages of allowance that definitive must be applied on the amount of exposures, are listed in the following table:

Type of Loan	Classification	Expected loss	Allowance (%)
Non-complying loans	C1	Up to 3 %	2
	C2	More than 3% up to 20%	10
	C3	More than 20% up to 30%	25
	C4	More than 30 % up to 50%	40
	C5	More than 50% up to 80%	65
	C6	More than 80%	90

For these loans, the expected loss must be calculated in the following manner:

Expected loss	= (TE R) / TE
Allowance	= TE x (AP/100)

Where:

TE	= total exposure
R	= recoverable amount based on estimates of collateral value and collection efforts
AP	= allowance percentage (based on the category in which the expected loss should be classified).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

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2. Summary of Significant Accounting Principles, continued:

(m) Loans to customers, continued:

(v) Allowance for loan losses, continued:

(vii) Allowances for group evaluations

Group evaluations are relevant to address a large number of operations whose individual amounts are low or small companies. Such assessments, and the criteria for application, must be consistent with the transaction of give the credit.

Group evaluations requires the formation of groups of loans with similar characteristics in terms of type of debtors and conditions agreed, to establish technically based estimates by prudential criteria and following both the payment behavior of the group that concerned as recoveries of defaulted loans and consequently provide the necessary provisions to cover the risk of the portfolio.

The estimated losses should be related to the type of portfolio and the operations terms.

In the case of consumer loans are not considered collateral for purposes of estimating the expected loss.

The group analysis is used to analyze a large number of operations whose individual amounts are not significant. For this analysis, the Bank uses models based on attributes of the debtors and their loans, and on the behavior of a group of loans. In the group evaluations, the allowances are always constituted in accordance with the estimated loss using the aforementioned models.

Allowances are establish according with the results of the application of the methods used by the Bank, distinguishing between allowances over normal portfolio and over the non-complying loans, and those that protect the contingent credit risks associated with these portfolios.

The non-complying loans includes loans and contingent credits linked to debtors that have delay more than 90 days in the payment of interest or principal, including all their credits, even 100% of the amount of contingent credit, related to the same debtor has it .

(vi) Charge-offs

Generally, the charge-offs are produced when the contractual rights on cash flows end. In case of loans, even if the above does not happen, it will proceed to charge-offs the respective asset balances.

The charge-off refers to derecognition of the assets in the Statement of Financial Position, related to the respective transaction and, therefore, the part that could not be past-due if a loan is payable in installments, or a lease.

The charge-off must be to make using credit risk provisions constituted, whatever the cause for which the charge-off was produced.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(m) Loans to customers, continued:

(vi) Charge-offs, continued

(vi.i) Charge-offs of loans to customers

Charge-off loans to customers, other than leasing operations, shall be made in accordance to the following circumstances occurs:

a) The Bank, based on all available information, concludes that will not obtain any cash flow of the credit recorded as an asset.

b) When the debt (without executive title , a collectability category pursuant to local law) meets 90 days since it was recorded as an asset.

a) At the time the term set by the statute of limitations runs out and as result legal actions are precluded in order to request payment through executive trial or upon rejection or abandonment of title execution issued by judicial and non-recourse resolution.

b) When past-due term of a transaction complies with the following:

Type of Loan	**Term**
Consumer loans - secured and unsecured	6 months
Other transactions - unsecured	24 months
Commercial loans - secured	36 months
Residential mortgage loans	48 months

The term represents the time elapsed since the date on which payment of all or part of the obligation in default became due.

(vi.ii) Charge-offs of lease operations

Assets for leasing operations must be charge-offs against the following circumstances, whichever occurs first:

a) The bank concludes that there is no possibility of the rent recoveries and the value of the property can not be considered for purposes of recovery of the contract, either because the lessee have not the asset, for the property s conditions, for expenses that involve its recovery, transfer and maintenance, due to technological obsolescence or absence of a history of your location and current situation.

b) When it complies the prescription term of actions to demand the payment through executory or upon rejection or abandonment of executory by court.

c) When past-due term of a transaction complies with the following:

Type of Loan	**Term**
Consumer leases	6 months
Other non-real estate lease transactions	12 months
Real estate leases (commercial or residential)	36 months

The term represents the time elapsed since the date on which payment of all or part of the obligation in default became due.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(m) Loans to customers, continued:

(vii) Loan loss recoveries

Cash recoveries on charge-off loans including loans that were reacquired from the Central Bank of Chile are recorded directly in income in the Consolidated Statement of Comprehensive Income, as a reduction of the Provisions for Loan Losses item.

In the event that there are recovery in assets, is recognized in income the revenues for the amount they are incorporated in the asset. The same criteria will be followed if the leased assets are recovered after the charge-off of a lease operation, to incorporate those to the asset.

(viii) Renegotiations of charge-off transactions

Any renegotiation of a charge-off loan it not recognize in income, while the operation continues to have deteriorated quality. Payments must be recognized as loan recoveries, as indicated in No. 3 above.

Therefore, renegotiated credit can be recorded as an asset only if it has not deteriorated quality, also recognizing revenue from activation must be recorded like recovery of loans.

The same criteria should apply in the case that was give credit to pay a charge-off loan.

(n) Financial assets held-to-maturity and available-for-sale:

Financial assets held-to-maturity includes only those securities for which the Bank has the ability and intention of keeping until maturity. The remaining investments are considered as financial assets available-for-sale. On an ongoing basis the Bank reassesses whether the ability and intention to sell available-for-sale instruments remains to be given.

A financial asset classified as available-for-sale is initially recognized at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets available for sale are subsequently measured at their fair value based on market prices or valuation models. Unrealized gains or losses as a result of fair value adjustments are recorded in Other comprehensive income within Equity. When these investments are sold, the cumulative fair value adjustment existing within equity is recorded directly in income under Net financial operating income .

Financial assets held-to-maturity are recorded at their cost plus accrued interest and indexations less impairment provisions made when the carrying amount exceeds the estimated recoverable amount.

Interest and indexations of financial assets held-to-maturity and available-for-sale are included in the line item Interest revenue .

Investment securities, which are subject to hedge accounting, are adjusted according to the rules for hedge accounting as described in Note No. 2 (l).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(n) Financial assets held-to-maturity and available-for-sale, continued:

Purchases and sales of investment securities that must be delivered within the period established by market regulations or conventions are recorded using the trade date that is the date on which the purchase or sale of the asset is committed. Any other purchase or sale is treated as a derivative (forward) until liquidation occurs.

As of December 31, 2012 and 2011, the Bank and its subsidiaries do not hold held to maturity instruments.

(o) Debt issued and other financial liabilities:

Financial instruments issued by the Bank are classified in the Statement of Financial Position under Debt issued items, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash.

After initial measurement, debt issued is subsequently measured at amortized cost using the effective interest rate. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(p) Intangible assets:

Intangible assets are identified as non-monetary assets (separately identifiable from other assets) without physical substance which arise as a result of a legal transaction or are developed internally by the consolidated entities. They are assets whose cost can be estimated reliably and from which the consolidated entities have control and consider it probable that future economic benefits will be generated.

Intangible assets are recorded initially at acquisition cost and are subsequently measured at cost less any accumulated amortization or any accumulated impairment losses.

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates representing the excess of the fair value of the purchase consideration and cost directly attributable to the acquisition over the net fair value of the Bank s share of the identifiable assets acquired and the liabilities and contingent liabilities assumed on the date of the acquisition.

For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is either performed using market rates or by using risk-free rates and risk-adjusted expected future cash flows.

Goodwill held as of December 31, 2012 and 2011 is presented at cost, less accumulated amortization in accordance with its remaining useful life.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(p) Intangible assets, continued:

(ii) Software or computer programs

Computer software purchased by the Bank and its subsidiaries is accounted for at cost less accumulated amortization and impairment losses.

The subsequent expense in software assets is capitalized only when it increases the future economic benefit for the specific asset. All other expenses are recorded as an expense as incurred.

Amortization is recorded in income using the straight-line amortization method based on the estimated useful life of the software, from the date on which it is available for use. The estimated useful life of software is a maximum of 6 years.

(iii) Other identifiable intangible assets

This item applies to identifiable intangible assets for which the cost can be reliably measured and which are likely to generate future economic benefits for the Bank.

(q) Property and equipment:

Property and equipment includes the amount of land, real estate, furniture, computer equipment and other installations owned by the consolidated entities and which are for own use. These assets are stated at historical cost or fair value as attributed cost less accumulated depreciation and accumulated impairment, with price-level restatement applied up to December 31, 2007.

This cost includes expenses than have been directly attributed to the asset s acquisition.

Depreciation is recognized in income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

Estimated useful lives for 2012 and 2011 are as follows:

Buildings	50 years
Installations	10 years
Equipment	3 years
Supplies and accessories	5 years

Maintenance expenses relating to those assets held for own uses are recorded as expenses in the period in which they are incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(r) Deferred taxes and income taxes:

The income tax provision of the Bank and its subsidiaries has been determined in conformity with current legal provisions.

The Bank and its subsidiaries recognize, when appropriate, deferred tax assets and liabilities for future estimates of tax effects attributable to temporary differences between the book and tax values of assets and liabilities. Deferred tax assets and liabilities are measured based on the tax rate expected to be applied, in accordance with current tax law, in the year that deferred tax assets are realized or liabilities are settled. The effects of future changes in tax legislation or tax rates are recognized in deferred taxes starting on the date of publication of the law approving such changes.

Deferred tax assets and liabilities are recorded at their book value as of the date the deferred taxes are measured. Deferred tax assets are recognized only when it is likely that future tax profits will be sufficient to recover deductions for temporary differences. Deferred taxes are classified in conformity with established by Superintendency of Banks.

(s) Assets received in lieu of payment:

Assets received or awarded in lieu of payment of loans and accounts receivable from customers are recorded, in the case of assets received in lieu of payment, at the price agreed by the parties, or otherwise, when the parties do not reach an agreement, at the amount at which the Bank is awarded those assets at a judicial auction.

Assets received in lieu of payment are classified under Other Assets and they are recorded at the lower of its carrying amount or net realizable value, less charge-off and presented net of a portfolio valuation allowance. The Superitendency of Banks requires regulatory charge-offs if the asset is not sold within a one year of foreclosure.

(t) Investment properties:

Investments properties are real estate assets held to earn rental income or for capital appreciation or both, but are not held-for-sale in the ordinary course of business or used for administrative purposes. Investment properties are measured at fair value as attributed cost calculated as of January 1, 2008, less accumulated depreciation and impairment and are presented under   Other Assets .

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(u) Provisions and contingent liabilities:

Provisions are liabilities involving uncertainty about their amount or maturity. They are recorded in the Statement of Financial Position when the following requirements are jointly met:

i) a present obligation has arisen from a past event and,

ii) as of the date of the financial statements it is probable that the Bank or its subsidiaries have to disburse resources to settle the obligation and the amount can be reliably measured.

A contingent asset or liability is any right or obligation arising from past events whose existence will be confirmed by one or more uncertain future events which are not within the control of the Bank.

The following are classified as contingent in the complementary information:

i. Guarantors and pledges: Comprises guarantors, pledges and standby letters of credit. In addition it includes payment guarantees for purchases in factoring transactions, as indicated in Chapters 8-38 of that Compilation.

ii. Confirmed foreign letters of credit: Corresponds to letters of credit confirmed by the Bank.

iii. Documentary letters of credit: Includes documentary letters of credit issued by the Bank which have not yet been negotiated.

iv. Documented guarantee: Guarantee with promissory notes.

v. Interbank guarantee: Correspond to letters of guarantee issued as foreseen in Title II of Chapters 8-12 of the Updated Compilation of Standards.

vi. Free disposal lines of credit: The unused amount of credit lines that allow customers to draw without prior approval by the Bank (for example, using credit cards or overdrafts in checking accounts).

vii. Other credit commitments: Amounts not yet lent under committed loans, which must be disbursed at an agreed future date when events contractually agreed upon with the customer occur, such as in the case of lines of credit linked to the progress of a construction or similar projects.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(u) Provisions and contingent liabilities, continued:

viii. Other contingent loans: Includes any other kind of commitment by the Bank which may exist and give rise to lending when certain future events occur. In general, this includes unusual transactions such as pledges made to secure the payment of loans among third parties or derivative contracts made by third parties that may result in a payment obligation and are not covered by deposits.

Exposure to credit risk on contingent loans:

In order to calculate provisions on contingent loans, as indicated in Chapter B-1 of the Compendium of Accounting Standards of the Superintendency of Banks, the amount of exposure that must be considered shall be equivalent to the percentage of the amounts of contingent loans indicated below:

Type of contingent loan	**Exposure**
a) Guarantors and pledges	100%
b) Confirmed foreign letters of credit	20%
c) Documentary letters of credit issued	20%
d) Guarantee deposits	50%
e) Interbank letters of guarantee	100%
f) Free disposal lines of credit	50%
g) Other loan commitments	
- College education loans Law No. 20,027	15%
- Others	100%
h) Other contingent loans	100%

Notwithstanding the above, when dealing with transactions performed with customers with overdue loans as indicated in Chapter B-1 of the Compendium of Accounting Standards of the SBIF: Impaired and/or Written-down Loans, that exposure shall be equivalent to 100% of its contingent loans.

Additional provisions:

In accordance to Superintendency of Banks regulations, the Bank has recorded additional allowances for its individually evaluated loan portfolio, taking into consideration the expected impairment of this portfolio. The calculation of this allowance is performed based on the Bank s historical experience and considering possible future adverse macroeconomic conditions or circumstances that could affect a specific sector, industry, groups of debtors or projects.

The provisions made in order to forestall the risk of macroeconomic fluctuations should anticipate situations reversal of expansionary economic cycles in the future, could translate into a worsening in the conditions of the economic environment and, thus, function as a countercyclical mechanism accumulation of additional provisions when the scenario is favorable and release or assignment to specific provisions when environmental conditions deteriorate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

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2. Summary of Significant Accounting Principles, continued:

(u) Provisions and contingent liabilities, continued:

Additional provisions, continued:

According to the above, additional provisions must always correspond to general provisions on commercial, consumer or mortgage loans, or segments identified, and in no case may be used to offset weaknesses of the models used by the bank.

During the current year, the Bank recorded additional provisions with a charge to income of MCh$2,271 (MCh$24,052 in 2011). As of December 31, 2012 the additional provisions amounted Ch$97,757 million (Ch$95,486 million), which are presents in the item Provisions of the liability in the Consolidated Statement of Financial Position.

(v) Provision for minimum dividends:

According with the Compendium of Accounting Standards of the SBIF, the Bank records within liabilities the portion of net income for the year that should be distributed to comply with the Corporations Law or its dividend policy. For these purposes, the Bank establishes a provision in a complementary equity account within retained earnings.

Distributable net income is considered for the purpose of calculating a minimum dividends provision, which in accordance with the Bank s bylaws is defined as that which results from reducing or adding to net income the value of price-level restatement for the concept of restatement or adjustment of paid-in capital and reserves for the year and their corresponding variations.

(w) Employee benefits:

(i) Staff vacations:

The annual costs of vacations and staff benefits are recognized on an accrual basis.

(ii) Short-term benefits

The Bank has a yearly bonus plan for its employees based on their ability to meet objectives and their individual contribution to the company s results, consisting of a given number or portion of monthly salaries. It is provisioned for based on the estimated amount to be distributed.

(iii) Staff severance indemnities:

Banco de Chile has recorded a liability for long-term severance indemnities in accordance with employment contracts it has with certain employees. The liability, which is payable to specified retiring employees with 30 or 35 years of service, is recorded at the present value of the accrued benefits, which are calculated by applying a real discount rate to the benefit accrued as of year-end over the estimated average remaining service period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(iii) Staff severance indemnities, continued:

Obligations for this defined benefits plan are valued according to the projected unit credit actuarial valuation method, using inputs such as staff turnover rates, expected salary growth in wages and probability that this benefit will be used, discounted at current long-term rates (5.50% as of December 31, 2012 and 6.04% as of December 31, 2011).

The discount rate used corresponds to the return on bonds of the Central Bank with maturity in 10 years (BCP).

Actuarial gains and losses are recognized as income or expense at the end of each reporting period. There is no past service costs that would have to be recognized by the Bank.

(x) Earnings per share:

Basic earnings per share is determined by dividing net income for the year attributable to the Bank by the average weighted number of shares in circulation during that year.

Diluted earnings per share is determined in a similar manner as basic earnings per share, but the average weighted number of shares in circulation is adjusted to account for the dilutive effect of stock options, warrants and convertible debt, As of December 31, 2012 and 2011, the Bank does not have any instruments or contracts that could cause dilutions. Therefore, no adjustments have been made.

(y) Interest revenue and expense:

Interest income and expenses are recognized in the income statement using the effective interest rate method. The effective interest rate is the rate which exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or a shorter period) where appropriate, to the carrying amount of the financial asset or financial liability. To calculate the effective interest rate, the Bank determines cash flows by taking into account all contractual conditions of the financial instrument, excluding future credit losses.

The effective interest rate calculation includes all fees and other amounts paid or received that form part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the purchase or issuance of a financial asset or liability.

For its impaired portfolio and high risk loans and accounts receivables from clients, the Bank has applied a conservative position of discontinuing accrual-basis recognition of interest revenue in the income statement; they are only recorded once received. In accordance with the above, suspension occurs in the following cases:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

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2. Summary of Significant Accounting Principles, continued:

(y) Interest revenue and expense, continued:

Loans with individual evaluation:

- Loans classified in categories C5 and C6: Accrual is suspended by the sole fact of being in the impaired portfolio.
- Loans classified in categories C3 and C4: Accrual is suspended due to having been three months in the impaired portfolio.

Group evaluation loans:

- Loans with less than 80% real guarantees: Accrual is suspended when payment of the loan or one of its installments has been overdue for six months.

Notwithstanding the above, in the case of loans subject to individual evaluation, recognition of income from accrual of interest and readjustments can be maintained for loans that are being paid normally and which correspond to obligations whose cash flows are independent, as can occur in the case of project financing.

Group evaluation loans, continued:

The suspension of recognition of revenue on an accrual basis means that, while the credits are kept in the impaired portfolio, the related assets included in the Consolidated Statement of Financial Position will increase with no interest, or fees and adjustments in the Consolidated Statement of Comprehensive Income, and income will not be recognized for these items, unless they are actually received.

(z) Fees and commissions:

Income and expenses from fees and commissions are recognized in income using different criteria based on the nature of the income or expense: The most significant criteria include:

- Fees earned from an single act are recognized once the act has taken place.

- Fees earned from transactions or services provided over a longer period of time are recognized over the life of the transactions or services.

- Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with incremental costs) and recognized as an adjustment to the effective interest rate of the loan. When it is unlikely that a loan is drawn down, the fees are recognized over the commitment period on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(aa) Identifying and measuring impairment:

Financial assets

Financial assets are reviewed throughout each year, and especially at each reporting date, to determine whether there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and the loss event had an impact on the estimated future cash flows of the financial asset that can be reliably calculated.

An impairment loss for financial assets recorded at amortized cost is calculated as the difference between the asset s carrying amount and the present value of the estimated future cash flows, discounted using the effective interest rate.

An impairment loss for available-for-sale financial assets is calculated using its fair value, considering fair value changes already recognized in other comprehensive income.

In the case of equity investments classified as available-for-sale financial assets, objective evidence includes a significant or prolonged decline in the fair value of the investment below cost. In the case of debt securities classified as available-for-sale financial assets, the Bank assesses whether there exists objective evidence for impairment based on the same criteria as for loans.

If there is evidence of impairment, any amounts previously recognized in equity, in net gains (losses) not recognized in the income statement, is removed from equity and recognized in the income statement for the period, reported in net gains (losses) on financial assets available for sale. This amount is determined as the difference between the acquisition cost (net of any principal repayments and amortization) and current fair value of the asset less any impairment loss on that investment previously recognized in the income statement.

When the fair value of the available-for-sale debt security recovers to at least amortized cost, it is no longer considered impaired and subsequent changes in fair value are reported in equity.

Individually significant financial assets are individually examined to determine impairment. Remaining financial assets are collectively evaluated in groups that share similar credit risk characteristics.

All impairment losses are recognized in the income statement. Any cumulative loss related to available-for-sale financial assets recognized previously in equity is transferred to the income statement.

An impairment loss can only be reversed if it can be related objectively to an event occurring after the impairment loss was recognized. Reversal of financial assets recorded at amortized cost and those classified as available-for-sale that are sales instruments is recorded in the income statement. Reversal of financial assets that are variable income instruments is recognized directly in equity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(aa) Identifying and measuring impairment, continued:

Financial assets, continued

An impairment loss is reversed if, in a subsequent period, the fair value of the debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss. The amount of the reversal is recognized in profit or loss up to the amount previously recognized as impairment. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

Non-financial assets

The carrying amounts of the non-financial assets of the Bank and its subsidiaries, excluding investment properties and deferred tax assets, are reviewed throughout the year and especially at each reporting date, to determine if any indication of impairment exists. If such indication exists, the recoverable amount of the asset is then estimated.

Impairment losses recognized in prior years are assessed at each reporting date in search of any indication that the loss has decreased or disappeared. An impairment loss is reversed if there has been a change in the estimations used to determine the recoverable amount. An impairment loss is reverted only to the extent that the book value of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

The Bank assesses at each reporting date and on an ongoing basis whether there is an indication that an asset may be impaired. If any indication exists, the Bank estimates the asset s recoverable amount. An asset s recoverable amount is the fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, share prices and other available fair value indicators.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(aa) Identifying and measuring impairment, continued:

Non-financial assets, continued:

For assets, excluding goodwill, impairment losses recognized in prior years are assessed at each reporting date, in search of any indication that the loss has decreased or disappeared. A previously recognized impairment is reversed only if there has been a change in the assumptions used to determine the asset s recoverable amount since the last impairment was recognized. An impairment loss is reversed only to the extent that the book value of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Such reversal is recognized in the income statement.

Impairment losses related to goodwill cannot be reversed in future periods.

(ab) Lease transactions:

(i) The Bank acting as lessor

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets held are subject to a finance lease, the leased assets are derecognized and a receivable is recognized which is equal to the present value of the minimum lease payments, discounted at the interest rate implicit in the lease. Initial direct costs incurred in negotiating and arranging a finance lease are incorporated into the receivable through the discount rate applied to the lease. Finance lease income is recognized over the lease term based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases.

The leased assets are include within Other Assets on the Group s balance sheet and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful economic lives. Rental income is recognized on a straight-line basis over the period of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(ab) Lease transactions, continued:

(ii) The Bank acting as lessee

Assets held under finance leases are initially recognized on the balance sheet at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. As of December 31, 2012 and 2011, the Bank and its subsidiaries have not signed contracts of this nature.

Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences when the lessee controls the physical use of the property. Lease incentives are treated as a reduction of rental expense and are also recognized over the lease term on a straight-line basis. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

(ac) Fiduciary activities:

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of the clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank. Contingencies and commitments arising from this activity are disclosed in Note No. 26 (a).

(ad) Customer loyalty program:

The Bank maintains a customer loyalty programs as an incentive to its clients. The scheme grants its customers certain points depending on the value of credit card purchases they make. The so-collected points can be used to obtain services from a third party. In accordance with IFRIC 13 the costs which the Bank incurs providing this incentive are recognized at fair value when the corresponding revenue is recognized, considering the probabilities of being used by the customers to obtain the third party s service. The points collected cannot be used to obtain services directly from the Bank.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(ae) Reclassifications

Certain reclassifications have been made on some items of the Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income as of December 31, 2011 in order to maintain an adequate comparability of these states.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

3. New Accounting Pronouncements:

The following is a summary of new standards, interpretations and improvements to the international accounting standards issued by the International Accounting Standards Board (IASB) but which have not come into effect as of December 31, 2012, as per the following detail:

IAS 1 Presentation of Financial Statements

Amendment issued in June 2011. The main change for this is the requirement that the items of Other Comprehensive Income are classified and grouped, evaluating whether potentially be reclassified to earnings in future periods. The amendment is applicable for annual periods beginning on or after July 1, 2012.

The annual improvements to IFRS, issued in May 2012, provide amendments to IAS 1 in order to clarify the requirements to provide comparative information for:

a) The requirements comparative of the opening statement of financial position when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification, according to IAS 8 Accounting policies, changes in accounting estimates and errors , and

b) The requirement to provide comparative information when an entity provides additional comparative information beyond the minimum comparative information requirements.

The amendment is applicable for annual periods beginning January 1, 2013 and earlier application is permitted. The amendment is applied retrospectively for any change accordance with the description in a) and b).

The management estimates that this change has not significant impacts in the consolidated financial statements of Banco de Chile and its subsidiaries.

IAS 19 Employee Benefits

The amendments to IAS 19 (1,998) remove the option to defer the recognition of actuarial gains and losses (the corridor method), streamline the presentation of changes in assets and liabilities arising from defined benefit plans and enhance the disclosure requirements for defined benefit plans. Entities are required to apply amendments in the annual periods beginning on or after ***January 1, 2013***, or earlier.

According to the assessment made, this change has not significant impacts in the consolidated financial statements of Banco de Chile and its subsidiaries.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

3. New Accounting Pronouncements, continued:

IAS 27 Separate Financial Statements

This standard amended in May 2011, and supersedes IAS 27 (2008). The scope of this standard is restricted only for separate financial statements, as the concept related to the definition of control and consolidation were removed and included in IFRS 10.

Entities are required to apply amendments in the annual periods beginning on or after ***January 1, 2013***, and early adoption is permitted in conjunction with IFRS 10, IFRS 11 and IFRS 12 and the amendment to IAS 28.

Banco de Chile has not separate financial statements, so this regulatory change has not impact in the Consolidated Financial Statements.

IAS 28 Investments in Associates and Joint Venture

This standard was reissued in May 2011, regulates the accounting treatment of application of the equity method to investments in joint ventures. Entities are required to apply amendments in the annual periods beginning on or after ***January 1, 2013***, and early adoption is permitted in conjunction with IFRS 10, IFRS 11 and IFRS 12 and the amendment to IAS 27.

Banco de Chile has not investments in associates and joint ventures, so this regulatory change has not impact in the Consolidated Financial Statements.

IAS 32 Financial Instruments: Presentation

The amendments issued in December 2011, clarify the meaning of currently has a legally enforceable right to set-off . The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The standard is effective for annual periods beginning on or after ***January 1, 2014*** and early adoption is permitted.

In May 2012, the amendments removes a perceived inconsistency between IAS 32 and IAS 12 and indicating that the income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes .

This amendment shall apply retroactively for annual periods beginning on or after ***January 1, 2013***. Earlier application is permitted.

According to current rules about netting force in Chile, this rule has no impact on the consolidated financial statements of Banco de Chile and its subsidiaries.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

3. New Accounting Pronouncements, continued:

IAS 34 Interim Financial Reporting

The annual improvements to IFRS, issued in May 2012, incorporates amendments to IAS 34, in which it is established that requires disclosure of assets and total liabilities for a particular segment, if:

a) It report in a regular form the total assets and liabilities to the operation s responsible.

b) There has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

This amendment shall apply retroactively for annual periods beginning on or after ***January 1, 2013***. Earlier application is permitted.

According to the assessment carried out this policy change has no impact on the consolidated financial statements of Banco de Chile and its subsidiaries.

IFRS 7 Financial Instruments: Disclosures

In December 2011, amended the required disclosures to include information that will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity s recognized financial assets and recognized financial liabilities, on the entity s financial position. An entity shall apply those amendments for annual periods beginning on or after ***January 1, 2013***.

According to the assessment made, this regulatory change has not impacts in the financial statements of Banco de Chile and its subsidiaries. It will be required additional disclosures, which it is in process to design, for the next quarterly financial statements.

IFRS 9 Financial Instruments: Financial liabilities

In October, 2010, the IASB published the requirements for classifying and measuring financial liabilities were added to IFRS 9. Most of the added requirements were carried forward unchanged from IAS 39. However, the requirements related to the fair value option for financial liabilities were changed to address the issue of own credit risk in response to consistent feedback from users of financial statements and others that the effects of changes in a liability s credit risk ought not to affect profit or loss unless the liability is held for trading.

The mandatory effective date to annual periods beginning on or after ***January 1, 2015***.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

3. New Accounting Pronouncements, continued:

IFRS 9 Financial Instruments: Recognition and Measurement

In November 2009, the IASB issued IFRS 9, Financial Instruments, the first step in its project to replace IAS 39, Financial Instruments: Recognition and Measurement . IFRS 9 introduces new requirements for classifying and measuring financial assets that are in the scope of the application of IAS 39. This new regulation requires that all financial assets be classified in function of the entity s business model for the management of financial assets and of the characteristics of the contractual cash flows of financial assets. A financial asset shall be measured at amortized cost if two criteria are fulfilled: (a) the objective of the business model is to maintain a financial asset to receive contractual cash flows, and (b) contractual cash flows represent principal and interest payments. Should a financial asset not comply with the aforementioned conditions, it will be measured at fair value. In addition, this standard allows a financial asset that fulfills the criteria to be valued at amortized cost to be designated at fair value with changes in income under the fair value option, as long as this significantly reduces or eliminates an accounting asymmetry. Likewise, IFRS 9 eliminates the requirement of separating embedded derivatives from the host financial assets. Therefore, it requires that a hybrid contract be classified entirely in amortized cost or fair value.

IFRS 9 is effective for annual periods commencing as of ***January 1, 2015***, and allows adoption prior to that date. IFRS 9 must be applied retroactively, however if it is adopted before January 1, 2012, there is no need to reformulate comparative periods.

Banco de Chile and its subsidiaries are assessing the possible impact of adoption of these changes on the consolidated financial statements, however, that impact will depend on the assets maintained by the institution as of the adoption date. It is not practicable to quantify the effect on the issuance of these consolidated financial statements. To date, neither of these standards has been approved by the Superintendency of Banks, event that is required for their application.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

3. New Accounting Pronouncements, continued:

IFRS 10 Consolidated Financial Statement

In May 2011 the IASB issued IFRS 10 establishes a new definition of control applies to all entities including special purpose entities or structured entities as they are now referred to in the new standards. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent.

To date, Banco de Chile and its subsidiaries are evaluating the possible impact that the adoption of this standard will have on its consolidated financial statements. However, it will be required additional disclosures, which it is in process to design, for the next quarterly financial statements.

IFRS 11 Joint Arrangements

In May 2011, the IASB issued IFRS 11 which replaces IAS 31 Interest in Joint Ventures and SIC-13 Jointly-Controlled Entities- Non-monetary Contributions by Ventures .

IFRS 11 eliminated the option to record the value of investment in a joint venture using proportionate consolidation or recognize its assets and liabilities its relative shares of those items, if any. The new standards require using the equity method.

These new standard is effective for annual periods beginning on or after ***January 1, 2013***.

According to assessment made this regulatory change has not significant impact in the financial statements of Banco de Chile.

IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 which replaces the disclosure requirements previously included in IAS 27, IAS 31 and IAS 28. This new standard is aimed at concentrating on a single regulatory body disclosure of subsidiaries, joint agreements, associates and structured entities. One of the most significant changes introduced by IFRS 12 is required for the parent to disclose the judgment that management has made to determine that it has control to consolidate or not different entities. The new disclosures will help users of its financial statement evaluate the nature and risks associated with interests in other entities and the effects of those interests on its financial statements.

These new standard is effective for annual periods beginning on or after ***January 1, 2013***.

According to the assessment made, this regulatory change has not impacts in the financial statements of Banco de Chile and its subsidiaries. It will be required additional disclosures, which it is in process to design, for the next quarterly financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

3. New Accounting Pronouncements, continued:

IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 Fair Value Measurement. This new standard establishes a new definition of Fair Value (this definition converges with generally accepted accounting principles in United State). This new standard does not change when an entity must or may use fair value, but changes the way how to measure the fair value of financial assets and liabilities and non-financial.

These new standard is effective for annual periods beginning on or after ***January 1, 2013***.

According the assessment, this policy change has no impact on the consolidated financial statements of Banco de Chile and its subsidiaries, however the Bank is working in its disclosures for comply with the further information requests of this rule. This rule will be applicable if Superintendency of Banks and Financial Institutions allow its adoption.

4. Changes in Accounting Policies and Disclosures:

During the period ended December 31, 2012, have not occurred significant accounting changes that affect the presentation of Consolidated Financial Statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

5. Relevant Events:

(a) In an ordinary meeting held on January 26, 2012, the Bank s Board of directors decided to call an ordinary shareholders meeting to be held on March 22, 2012 with the objective of proposing, among other matters, the increase the Banks capital through the capitalization of 30% of the Bank s net income for the fiscal year 2011, by means of the issuance of shares without nominal value, set at the value of Ch$67.48 per share and distributed among shareholders, without charge, at the rate of 0.018956 new shares per each paid for and subscribed share and to adopt all necessary resolutions subject to the options contemplated in Article 31 of Law N°19,396.

In an ordinary meeting held on March 22, 2012, its shareholders approved the distribution and payment of dividend No.200, in the amount of Ch$2.984740 per Banco de Chile common share, which represents 70% of the Bank s net income for year 2011.

(b) On February 16, 2012 and pursuant to Article 116 of Law No. 18,045, Banco de Chile in his capacity as representative of the bondholders Series A, issued by Compañía Sud Americana de Vapores S.A., Banco de Chile informed, as an essential information, that because this has occurred the configuration of the disability cause contemplated in the first paragraph of Article 116 of Law No. 18,045, that is, being the representative of the bondholders related to the issuer.

The said bond issue is in the public deed dated August 29, 2001, executed in Santiago on behalf of the Public Notary Mr. René Benavente Cash, together with all the amendments and entered in the Registry of Securities of the Chilean Superintendency of Securities and Insurance under No. 274.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

5. Relevant Events, continued:

(c) On March 27, 2012, the Central Bank of Chile communicated to Banco de Chile that in the Extraordinary Session, No. 1666E, held on the same date, the Board of the Central Bank of Chile resolved to request its corresponding surplus, from the fiscal year ended December 31, 2011, including the proportional part of the agreed upon capitalization profits, be paid in cash.

(d) In the Ordinary Meeting held on April 26, 2012, the Board of Directors of Banco de Chile accepted the resignation presented by the Director, Mr. Fernando Quiroz Robles.

Likewise, the Board of Directors appointed, until the next Ordinary Shareholders Meeting, Mr. Francisco Aristeguieta Silva as Director. Additionally, in the same session, Mr. Francisco Aristeguieta Silva was appointed as Vice Chairman of the Board of Directors of Banco de Chile.

(e) On June 5, 2012 Banco de Chile informed the capitalization of 30% of the distributable net income obtained during the fiscal year ending the December 31, 2011, through the issuance of fully paid-in shares, of no par value, agreed in the Extraordinary Shareholders Meeting held on March 22, 2012, the Bank informed the following:

(i) In the said Extraordinary Shareholders Meeting, it was agreed to increase the Bank´s capital in the amount of Ch$73,910,745,344 through the issuance of 1,095,298,538 fully paid-in shares, of no par value, payable under the distributable net income for the year ended December 31, 2011 that was not distributed as dividends as agreed at the Ordinary Shareholders Meeting held on the same day.

The Chilean Superintendency of Banks and Financial Institutions approved the amendment of the bylaws, through resolution N°118 dated May 17, 2012, which was registered on page 33,050, No. 23,246 on the Chamber of Commerce of Santiago, on May 18, 2012 and was published at Diario Oficial No. 40,267 on May 22, 2012.

The issuance of fully in paid shares was registered in the Securities Register of the Superintendence of Banks and Financial Institutions with No. 4/2012, on June 4, 2012.

(ii) The Board of Directors of Banco de Chile, at the meeting No. 2,754, dated May 24, 2012, set June 28, 2012, as the date for issuance and distribution of the fully paid in shares.

(iii) The shareholders that will be entitled to receive the new shares, at a ratio of 0.018956 fully in paid shares for each Banco de Chile share, shall be those registered in the Registry of Shareholders on June 22, 2012.

(iv) The titles will be duly assigned to each shareholder. The Bank will only print the titles for those shareholders who request it in writing at the Shareholders Department of Banco de Chile.

(v) As a consequence of the issuance of the fully in paid shares, the capital of the Bank will be divided in 88,037,813,511 nominative shares, without par value.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

5. Relevant Events, continued:

(f) On July 9, 2012, according to Article 19 of Chilean General Banking Act, the Superintendency of Banks and Financial Institutions imposed a fine of Ch$40,000,000 (Chilean pesos) to Banco de Chile, in connection with the forwarding and delivering service by electronic mail, of current account statements corresponding to June 2012.

(g) In the Ordinary Session No. 2,761 held on September 13, 2012, the Board of Directors o Banco de Chile resolve to schedule an Extraordinary Shareholders Meeting to be held on October 17, 2012, with the purpose of proposing a capital increase in the amount of Ch$250,000,000,000 by means for the issuance of cash shares that must be subscribed and paid at the price, term and other conditions agreed by the Shareholders Meeting as well as to modify the Bank s by-laws by adopting the other necessary agreements so as to make effective the agreed by-laws reform. Cash shares to be issued will be ordinary Banco de Chile shares having the same rights as all Banco de Chile s shares, with the exception that they will not allow its shareholders to receive dividends and/or fully paid-in shares, as the case may be, with respect to the earnings of fiscal year 2012.

(h) On October 17, 2012 pursuant to Articles 9 and 10 of Law No. 18,045 and Chapter 18-10 of the Regulations of the Superintendency of Banks and Financial Institutions in the Extraordinary Shareholders Meeting held it was agreed to increase the Bank s capital in the amount of Ch$ 250,000,000,000 by means of the issuance of 3,939,489,442 cash shares, Banco de Chile-T series, with same rights as all Banco de Chile s shares, with the exception that they will not allow its shareholders to receive dividends and/or fully paid-in shares, with respect to our net distributable earnings for fiscal year 2012. Once said dividends and/or fully paid-in shares are distributed and paid shares Banco de Chile-T will be automatically converted into Banco de Chile shares.

The price of the issuance of the shares will be set by the Board of Directors within a period of 180 days following the aforementioned Shareholders Meeting according to the terms and conditions agreed upon on therein, having in consideration the market price for the Bank s shares, and in that case, such price shall not be more nor less than 8% of the average closing stock market price for Banco de Chile shares in a period of 30 market business days prior to the determination, minus the net distributable earnings per share accumulated until the last day of the month preceding to the determination date.

Likewise, it was agreed that the shares will be offered to the shareholders in accordance to the law while remaining shares to be offered in the stock markets of the country, and potentially abroad, at the opportunities determined by the Board of Directors.

On the other hand, in the aforementioned Meeting it was informed that the principal shareholder LQ Inversiones Financieras S.A., has announced by means of a letter dated October 16, 2012 its intention to underwrite and to pay the aggregate amount of shares corresponding to the Ordinary Preemptive Rights Period, and to assign and transfer its right to purchase options corresponding to it during the Special Preemptive Rights Period in the aforementioned capital increase.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

5. Relevant Events, continued:

(i) On November 22, 2012 in the Ordinary Meeting No. 2,766 held on this date, the Board of Directors of Banco de Chile resolved the issuance of 3,939,489,442 cash shares, without par value, Series Banco de Chile-T , in accordance with the agreements adopted by the Extraordinary Shareholders Meeting held on October 17, 2012. Likewise, it was agreed that the placement price of the mentioned cash shares will be Ch$64.

(j) On December 20, 2012 by way of a public deed dated December 19, 2012 issued before the Public Notary of Mr. René Benavente Cash, Banco de Chile together with its affiliate Banchile Corredores de Seguros Limitada entered into an agreement with Banchile Seguros de Vida S.A. called Collective Debtor s Life Insurance Agreement (Contrato de Seguro Colectivo de Desgravamen) for loan mortgages.

Said agreement was entered pursuant article 40 of DFL N° 251 of 1931, General Regulation N° 330 of the Superintendency of Securities and Insurance and Circular N° 3,530 of the Superintendency of Banks and Financial Institutions, both dated March 21, 2012, upon which the public bid for the collective policy for life insurance covering loan mortgages was adjudicated to Banchile Seguros de Vida S.A., who offered the lowest rate of 0.0119800% monthly, including a 14.00% commission fee for the insurance broker Banchile Corredores de Seguros Limitada, who will act as intermediary of the policy.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

6. Segment Reporting:

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

Retail: This segment focuses on individuals and small and medium-sized companies with annual sales up to 70,000 UF, where the product offering focuses primarily on consumer loans, commercial loans, checking accounts, credit cards, credit lines and mortgage loans.

Wholesale: This segment focused on corporate clients and large companies, whose annual revenue exceed 70,000 UF, where the product offering focuses primarily on commercial loans, checking accounts and liquidity management services, debt instruments, foreign trade, derivative contracts and leases.

Treasury and money market operations:

This segment includes revenue associated with managing the Bank s balance sheet (currencies, maturities and interest rates) and liquidity, including financial instrument and currency trading on behalf of the Bank itself.

Transactions on behalf of customers carried out by the Treasury are reflected in the respective aforementioned segments. These products are highly transaction-focused and include foreign exchange transactions, derivatives and financial instruments in general.

Subsidiaries: Corresponds to companies and corporations controlled by the Bank, where income is obtained individually by the respective subsidiary. The companies that comprise this segment are:

Entity

- Banchile Trade Services Limited

- Banchile Administradora General de Fondos S.A.
- Banchile Asesoría Financiera S.A.
- Banchile Corredores de Seguros Ltda.
- Banchile Factoring S.A.
- Banchile Corredores de Bolsa S.A.
- Banchile Securitizadora S.A.
- Socofin S.A.
- Promarket S.A.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

6. Segment Reporting, continued:

The financial information used to measure the performance of the Bank s business segments is not necessarily comparable with similar information from other financial institutions because it is based on internal reporting policies. The accounting policies used to prepare the Bank s operating segment information are similar as those described in Note 2 Summary of Significant Accounting Principles . The Bank obtains the majority of its income from: interest, revaluations and fees, discounted the credit cost and expenses. Management is mainly based on these concepts in its evaluation of segment performance and decision-making regarding goals, allocation of resources for each unit individually. Although the results of the segments reconcile with those of the Bank at total level, it is not thus necessarily concerning the different concepts, since the management is measured and controls in individual form and additionally applies the following criteria:

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

- The internal performance profitability system considers capital allocation in each segment in accordance to the Basel guidelines.

- Operating expenses are distributed at each area level. The Bank allocates all of its indirect operating costs to each business segment by utilizing a different cost driver in order to allocate such costs to the specific segment.

The Bank did not enter into transactions with a particular customer or third party that exceed 10% of its total income in 2012 and 2011.

Transfer pricing between operating segments are on an arm s length basis in a manner similar to transactions with third parties.

Taxes are managed at a corporate level and are not allocated to business segments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

6. Segment Reporting, continued:

The following table presents the income for 2012 and 2011 for each of the segments defined above:

	December 31, 2012						
	Retail MCH$	**Wholesale MCH$**	**Treasury MCH$**	**Subsidiaries MCH$**	**Subtotal MCH$**	**Adjustments (*) MCH$**	**Total MCH$**
Net interest income	664,861	252,009	18,356	6,177	941,403	11,435	952,838
Net fees and commissions income	178,569	36,130	(512)	104,490	318,677	(11,420)	307,257
Other operating income	16,628	32,865	14,746	31,857	96,096	(14,152)	81,944
Total operating revenue	860,058	321,004	32,590	142,524	1,356,176	(14,137)	1,342,039
Provisions for loan losses	(179,524)	(6,751)	(21)	(1,894)	(188,190)		(188,190)
Depreciation and amortization	(20,883)	(7,284)	(1,204)	(1,586)	(30,957)		(30,957)
Other operating expenses	(405,154)	(110,081)	(8,960)	(92,804)	(616,999)	14,137	(602,862)
Income attributable to associates	(288)	(228)	(18)	305	(229)		(229)
Income before income taxes	254,209	196,660	22,387	46,545	519,801		519,801
Income taxes							(53,950)
Income after income taxes							465,851
Assets	9,666,888	9,325,032	3,746,908	1,123,750	23,862,578	(731,339)	23,131,239
Current and deferred taxes							129,827
Total assets							23,261,066
Liabilities	7,548,472	8,978,963	4,495,605	908,796	21,931,836	(731,339)	21,200,497
Current and deferred taxes							53,510
Total liabilities							21,254,007

(*) This column corresponds to the elimination adjustment to conform to the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

6. Segment Reporting, continued:

	December 31, 2011						
	Retail MCH$	Wholesale MCH$	Treasury MCH$	Subsidiaries MCH$	Subtotal MCH$	Adjustments (*) MCH$	Total MCH$
Net interest income	589,040	247,471	20,460	4,204	861,175	10,145	871,320
Net fees and commissions income	169,296	33,342	(536)	116,955	319,057	(10,284)	308,773
Other operating income	15,478	1,181	11,508	27,511	55,678	(11,989)	43,689
Total operating revenue	773,814	281,994	31,432	148,670	1,235,910	(12,128)	1,223,782
Provisions for loan losses	(111,242)	(10,541)	(964)	(2,093)	(124,840)		(124,840)
Depreciation and amortization	(21,174)	(6,299)	(1,718)	(1,520)	(30,711)		(30,711)
Other operating expenses	(377,165)	(123,355)	(8,486)	(86,259)	(595,265)	12,128	(583,137)
Income attributable to associates	2,252	710		338	3,300		3,300
Income before income taxes	266,485	142,509	20,264	59,136	488,394		488,394
Income taxes							(59,588)
Income after income taxes							428,806
Assets	8,416,826	9,268,380	3,415,922	1,069,135	22,170,263	(547,005)	21,623,258
Current and deferred taxes							117,689
Total assets							21,740,947
Liabilities	6,468,025	8,983,599	4,214,432	855,006	20,521,062	(547,005)	19,974,057
Current and deferred taxes							27,715
Total liabilities							20,001,772

(*) This column corresponds to the elimination adjustment to conform to the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

7. Cash and Cash Equivalents:

(a) Cash and cash equivalents and their reconciliation to the statement of cash flows at each year-end are detailed as follows:

	2012 MCh$	2011 MCh$
Cash and due from banks:		
Cash (*)	400,249	346,169
Current account with the Chilean Central Bank (*)	67,833	139,328
Deposits in other domestic banks	15,295	106,656
Deposits abroad	201,548	288,993
Subtotal - Cash and due from banks	684,925	881,146
Net transactions in the course of collection	237,393	218,215
Highly liquid financial instruments	304,886	290,069
Repurchase agreements	9,120	40,478
Total cash and cash equivalents	1,236,324	1,429,908

(*) Amounts in cash and Central Bank deposits are regulatory reserve deposits for which the Bank must maintain a certain monthly average.

(b) Transactions in the course of collection:

Transactions in the course of settlement are transactions for which the only remaining step is settlement, which will increase or decrease the funds in the Central Bank or in foreign banks, normally occurring within 12 to 24 business hours, and are detailed as follows:

	2012 MCh$	2011 MCh$
Assets		
Documents drawn on other banks (clearing)	249,019	185,342
Funds receivable	147,592	188,297
Subtotal - assets	396,611	373,639
Liabilities		
Funds payable	(159,218)	(155,424)
Subtotal - liabilities	(159,218)	(155,424)
Net transactions in the course of collection	237,393	218,215

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

8. Financial Assets Held-for-trading:

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

	2012 MCh$	2011 MCh$
Instruments issued by the Chilean Government and Central Bank of Chile:		
Central Bank bonds	25,585	66,243
Central Bank promissory notes	3,068	4,657
Other instruments issued by the Chilean Government and Central Bank	43,726	6,942
Other instruments issued in Chile		
Deposit promissory notes from domestic banks		
Mortgage bonds from domestic banks	22	61
Bonds from domestic banks		585
Deposits in domestic banks	87,093	191,003
Bonds from other Chilean companies		
Other instruments issued in Chile	188	370
Instruments issued by foreign institutions		
Instruments from foreign governments or central banks		
Other instruments issued abroad		
Mutual fund investments:		
Funds managed by related companies	33,042	31,910
Funds managed by third parties		
Total	192,724	301,771

Instruments issued by the Chilean Government and Central Bank include instruments sold under agreements to repurchase to customers and financial institutions, for the period 2012 there was not balance for this concept (MCh$29,811 in 2011).

Other instruments issued in Chile include instruments sold under agreements to repurchase to customers and financial instruments, amounting to MCh$86,863 as of December 31, 2012 (MCh$152,431 in 2011).

Agreements to repurchase have an average expiration of 11 days as of year-end (7 days in 2011).

Additionally, the Bank holds financial investments in mortgage finance bonds issued by itself in the amount of MCh$51,154 as of December 31, 2012 (MCh$64,929 in 2011), which are presented as a reduction of the liability line item Debt issued .

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

9. Repurchase Agreements and Security Lending and Borrowing:

(a) The Bank provides financing to its customers through Receivables from Repurchase Agreements and Security Borrowing , in which the financial instrument serves as collateral. As of December 31, 2012 and 2011, the Bank has the following receivables resulting from such transactions:

	Up to 1 month		Over 1 month and up to 3 month		Over 3 months and up to 12 months		Over 1 year and up to 3 years		Over 3 years and up to 5 years		Over 5 years		Total	
	2012 MCh$	2011 MCh$	2012 MCh$	2011 MCh$	2012 MCh$	2011 MCh$	2012 MCh$	2011 MCh$	2012 MCh$	2011 MCh$	2012 MCh$	2011 MCh$	2012 MCh$	2011 MCh$
Instruments issued by the Chilean Governments and Central Bank of Chile														
Central Bank bonds		10,021												10,021
Central Bank promissory notes														
Other instruments issued by the Chilean Government and Central Bank	582												582	
Other Instruments Issued in Chile														
Deposit promissory notes from domestic banks														
Mortgage bonds from domestic banks														
Bonds from domestic banks														
Deposits in domestic banks														
Bonds from other Chilean companies														
Other instruments issued in Chile	7,756	30,191	855	6,270	25,907	1,499							34,518	37,960

Instruments issued by foreign institutions														
Instruments from foreign governments or central bank														
Other instruments														
Total	8,338	40,212	855	6,270	25,907	1,499							35,100	47,981

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

9. Repurchase Agreements and Security Lending and Borrowing, continued:

(b) The Bank obtains financing by selling financial instruments and committing to purchase them at future dates, plus interest at a prefixed rate, As of December 31, 2012 and 2011, the Bank has the following payables resulting from such transactions:

	Up to 1 month		Over 1 month and up to 3 month		Over 3 months and up to 12 months		Over 1 year and up to 3 years		Over 3 years and up to 5 years		Over 5 years		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Instruments issued by the Chilean Governments and Central Bank of Chile														
Central Bank bonds		49,025												49,025
Central Bank promissory notes		1,139												1,139
Other instruments issued by the Chilean Government and Central Bank														
Other Instruments Issued in Chile														
Deposit promissory notes from domestic banks	219,526	168,414	1,603	4,553		71							221,129	173,038
Mortgage bonds from domestic banks														
Bonds from domestic banks														
Deposits in domestic banks														
Bonds from other Chilean companies														
	5,267												5,267	

Other instruments issued in Chile													
Instruments issued by foreign institutions													
Instruments from foreign governments or central bank													
Other instruments													
Total	224,793	218,578	1,603	4,553		71						226,396	223,202

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

9. Receivables from Repurchase Agreements and Security Borrowing, continued:

(c) Securities received:

As part of reverse repurchase and securities borrowing agreements the Bank has received securities that it is allowed to sell or repledge in the absence of default by the owner. At December 31, 2012 the Bank held securities with a fair value of Ch$34,865 million (Ch$47,022 million in 2011) on such terms. The Bank has an obligation to return the securities to its counterparties.

(d) Securities given:

The carrying amount of securities lent and of Payables from Repurchase Agreements and Security Lending at December 31, 2012 is Ch$266,395 million (Ch$221,528 million in 2011). The counterparty is allowed to sell or repledge those securities in the absence of default by the Bank.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

10. Derivative Instruments and Accounting Hedges:

(a) As of December 31, 2012 and 2011, the Bank s portfolio of derivative instruments is detailed as follows:

	Notional amount of contract with final expiration date in												Fair va	
	Up to 1 month		Over 1 month and up to 3 months		Over 3 months and up to 12 months		Over 1 year and up to 3 years		Over 3 year and up to 5 years		Over 5 years		Asset	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Derivatives held for hedging purposes														
Cross currency swap							31,388	13,376	41,558	17,260	74,626	125,952		
Interest rate swap							27,570	15,750	17,790	25,108	116,387	184,784		
Total derivatives held for hedging purposes							58,958	29,126	59,348	42,368	191,013	310,736		
Derivatives held as cash flow hedges														
Interest rate swap and cross currency swap	151,913	57,128					55,382	55,940	14,083		78,861		22	
Total Derivatives held as cash flow hedges	151,913	57,128					55,382	55,940	14,083		78,861		22	
Derivatives held-for-trading purposes														
Currency forward	4,231,746	3,672,500	2,519,046	2,375,832	3,260,326	4,102,695	191,364	325,204	2,458	27,809	65		70,166	125,766
Cross currency swap	69,220	133,883	199,338	145,791	1,034,040	1,065,272	1,721,408	1,497,511	719,073	685,216	1,026,518	891,617	177,403	181,092
Interest rate swap	353,133	200,243	905,870	506,595	3,298,276	1,473,712	3,540,462	1,620,359	1,505,936	621,418	1,650,103	584,082	81,093	77,589
Call currency options	30,306	11,072	20,938	34,671	46,686	46,262	4,795						472	1,239
Put currency options	26,009	468	15,288	988	25,980	3,119							341	2
Others												672,384		
Total derivatives of negotiation	4,710,414	4,018,166	3,660,480	3,063,877	7,665,308	6,691,060	5,458,029	3,443,074	2,227,467	1,334,443	2,676,686	2,148,083	329,475	385,688
Total	4,862,327	4,075,294	3,660,480	3,063,877	7,665,308	6,691,060	5,572,369	3,528,140	2,300,898	1,376,811	2,946,560	2,458,819	329,497	385,688

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

10. Derivative Instruments and Accounting Hedges, continued:

(b) Fair value Hedges:

The Bank uses cross-currency swaps and interest rate swaps to hedge its exposure to changes in the fair value of the hedged elements attributable to interest rates. The aforementioned hedge instruments change the effective cost of long-term issuances from a fixed interest rate to a variable interest rate, decreasing the duration and modifying the sensitivity to the shortest segments of the curve.

Below is a detail of the hedged elements and hedge instruments under fair value hedges as of December 31, 2012 and 2011:

	2012 MCh$	2011 MCh$
Hedged element		
Commercial loans	147,572	156,588
Corporate bonds	161,747	225,642
Total	309,319	382,230
Hedge instrument		
Cross currency swap	147,572	156,588
Interest rate swap	161,747	225,642
Total	309,319	382,230

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

10. Derivative Instruments and Accounting Hedges, continued:

(c) Cash flow Hedges:

(c.1) The Bank uses cross currency swaps to hedge the risk from variability of cash flows attributable to changes in the interest rates of bonds and foreign exchange of bonds issued abroad in Mexican pesos to rate TIIE (Interbank Interest Rate Balance) plus 0.6 percentage points and Hong Kong dollars to fix rate. The cash flows of the cross currency swaps equal the cash flows of the hedged items, which modify uncertain cash flows to known cash flows derived from a fixed interest rate.

Additionally, these cross currency swap contracts used to hedge the risk from variability of the Unidad de Fomento (CLF) in assets flows denominated in CLF until a nominal amount equal to the portion notional of the hedging instrument CLF, whose readjustment daily impact the item interest revenue of the financial statements.

(c.2) Below are the cash flows of bonds issued abroad objects of this hedge and cash flows of the active part of the derivative:

				2012			
	Up to1 month MCh$	**Over 1 month and up to 3 months MCh$**	**Over 3 months and up to 12 months MCh$**	**Over 1 year and up to 3 years MCh$**	**Over 3 years and up to 5 years MCh$**	**Over 5 years MCh$**	**Total MCh$**
Hedge item							
Outflows:							
Corporate Bond MXN	(235)	(470)	(2,348)	(58,199)			(61,252)
Corporate Bond HKD			(3,149)	(6,309)	(6,332)	(110,408)	(126,198)
Corporate Bond PEN			(1,138)	(2,276)	(16,358)		(19,772)
Hedge instruments							
Inflows:							
Cross Currency Swap MXN	235	470	2,348	58,199			61,252
Cross Currency Swap HKD			3,149	6,309	6,332	110,408	126,198

Cross Currency Swap				
PEN	1,138	2,276	16,358	19,772
Net cash flow				

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

10. Derivative Instruments and Accounting Hedges, continued:

(c) Cash flow Hedges, continued:

	2011						
	Up to1 month MCh$	**Over 1 month and up to 3 months MCh$**	**Over 3 months and up to 12 months MCh$**	**Over 1 year and up to 3 years MCh$**	**Over 3 years and up to 5 years MCh$**	**Over 5 years MCh$**	**Total MCh$**
Hedge item							
Outflows:							
Corporate Bond MXN	(239)	(477)	(2,385)	(62,461)			(65,562)
Hedge instruments							
Inflows:							
Cross Currency Swap MXN	239	477	2,385	62,461			65,562
Net cash flow							

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

10. Derivative Instruments and Accounting Hedges, continued:

(c) Cash flow Hedges, continued:

(c.2) Bellow are cash flow of underlying assets portfolio and cash flow of pasive part of derivative:

	2012						
	Up to1 month MM$	**Over 1 month and up to 3 months MM$**	**Over 3 months and up to 12 months MM$**	**Over 1 year and up to 3 years MM$**	**Over 3 years and up to 5 years MM$**	**Over 5 years MM$**	**Total MM$**
Hedge ítem							
Inflows:							
Cash flow in CLF			4,496	66,537	20,317	106,869	198,219
Instrumento de cobertura							
Outflows:							
Cross Currency Swap CLF			(1,644)	(60,173)			(61,817)
Cross Currency Swap CLF			(2,411)	(5,482)	(5,498)	(106,869)	(120,260)
Cross Currency Swap CLF			(441)	(882)	(14,819)		(16,142)
Net cash flow							

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

10. Derivative Instruments and Accounting Hedges, continued:

(c) Cash flow Hedges, continued:

	2011						
	Up to1 month MM$	**Over 1 month and up to 3 months MM$**	**Over 3 months and up to 12 months MM$**	**Over 1 year and up to 3 years MM$**	**Over 3 years and up to 5 years MM$**	**Over 5 years MM$**	**Total MM$**
Hedge item							
Inflows:							
Cash flow in CLF	235	470	2,349	62,048			65,102
Hedge instrument							
Outflows:							
Cross Currency Swap CLF	(235)	(470)	(2,349)	(62,048)			(65,102)

Respect to assets hedged, these are revalued monthly according to the variation of the UF, which is equivalent to realize monthly reinvestment of the assets until maturity of the relationship hedging.

(c.3) The accumulated amount of unrealized gain was an credit to equity for an amount of Ch$1,777 million (charge to equity for Ch$485 million in 2011) generated from hedging instruments, which has been recorded in equity. The net effect of deferred tax was a credit of equity for Ch$1,429 millions in 2012 (charge to equity for Ch$395 millions in 2011)

The accumulated balance for this concept net of deferred tax as of December 31, 2012 corresponds to a credit of equity amounted Ch$1,034 million (charge to equity amounted Ch$395 million in 2011)

(c.4) The net effect in income of derivatives cash flow hedges amount to Ch$2,318 million in 2012 (charge to income for Ch$1,029 millions en 2011).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

11. Loans and advances to Banks:

(a) As of December 31, 2012 and 2011, amounts are detailed as follows:

	2012 MCh$	2011 MCh$
Domestic Banks		
Interbank loans	14,309	15,059
Other credits with domestic banks		
Provisions for loans to domestic banks	(5)	(5)
Subtotal	14,304	15,054
Foreign Banks		