

BANK OF CHILE  
Form 6-K  
July 29, 2016  
[Table of Contents](#)

**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 July, 2016**

**Commission File Number 001-15266**

**BANK OF CHILE**

(Translation of registrant's name into English)

**Paseo 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 xForm 40-F O

Edgar Filing: BANK OF CHILE - Form 6-K

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):

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):

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  No

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

---

Table of Contents

BANCO DE CHILE  
REPORT ON FORM 6-K

Attached Banco de Chile's Consolidated Financial Statements with notes as of June 30, 2016.

Table of Contents

**BANCO DE CHILE AND SUBSIDIARIES**

**CONSOLIDATED INTERMEDIATE**

**FINANCIAL STATEMENTS**

**For the periods ended as of**

**June 30, 2016 and 2015 and**

**December 31, 2015.**



Table of Contents

**BANCO DE CHILE AND SUBSIDIARIES**

**INDEX**

I.	Interim Condensed Consolidated Statements of Financial Position
II.	Interim Condensed Consolidated Statements of Comprehensive Income
III.	Interim Condensed Consolidated Statements of Other Comprehensive Income
IV.	Interim Condensed Consolidated Statements of Changes in Equity
V.	Interim Condensed Consolidated Statements of Cash Flows
VI.	Notes to the Interim Condensed Consolidated Financial Statements

MCh\$	= Millions of Chilean pesos
ThUS\$	= Thousands of U.S. dollars
UF 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).
Ch\$ or CLP	= Chilean pesos
US\$ or USD	= U.S. dollars
JPY	= Japanese yen
EUR	= Euro
HKD	= Hong Kong dollars
PEN	= Peruvian nuevo sol
CHF	= Swiss franc
IFRS	= International Financial Reporting Standards
IAS	= International Accounting Standards
RAN	= Compilation of Norms of the Chilean Superintendency of Banks
IFRIC	= International Financial Reporting Interpretations Committee
SIC	= Standards Interpretation Committee

---

Table of Contents

**BANCO DE CHILE AND SUBSIDIARIES**

**INDEX**

	<b>Page</b>
<u>Interim Condensed Consolidated Statement of Financial Position</u>	4
<u>Interim Condensed Consolidated Statements of Comprehensive Income</u>	5
<u>Condensed Consolidated Statement of Changes in Equity</u>	7
<u>Interim Condensed Consolidated Statements of Cash Flows</u>	8
<u>1. Corporate information:</u>	9
<u>2. Legal provisions, basis of preparation and other information:</u>	9
<u>3. New Accounting Pronouncements:</u>	13
<u>4. Changes in Accounting policies and Disclosures:</u>	15
<u>5. Relevant Events:</u>	16
<u>6. Segment Reporting:</u>	19
<u>7. Cash and Cash Equivalents:</u>	22
<u>8. Financial Assets Held-for-trading:</u>	23
<u>9. Cash collateral on securities borrowed and reverse repurchase agreements:</u>	24
<u>10. Derivative Instruments and Accounting Hedges:</u>	26
<u>11. Loans and advances to Banks:</u>	31
<u>12. Loans to Customers, net:</u>	32
<u>13. Investment Securities:</u>	39
<u>14. Investments in Other Companies:</u>	41
<u>15. Intangible Assets:</u>	43
<u>16. Property and equipment:</u>	45
<u>17. Current Taxes and Deferred Taxes:</u>	48
<u>18. Other Assets:</u>	52
<u>19. Current accounts and Other Demand Deposits:</u>	53
<u>20. Savings accounts and Time Deposits:</u>	53
<u>21. Borrowings from Financial Institutions:</u>	54
<u>22. Debt Issued:</u>	55
<u>23. Other Financial Obligations:</u>	59
<u>24. Provisions:</u>	59
<u>25. Other Liabilities:</u>	63
<u>26. Contingencies and Commitments:</u>	64
<u>27. Equity:</u>	69
<u>28. Interest Revenue and Expenses:</u>	73
<u>29. Income and Expenses from Fees and Commissions:</u>	75
<u>30. Net Financial Operating Income:</u>	76
<u>31. Foreign Exchange Transactions, net:</u>	76
<u>32. Provisions for Loan Losses:</u>	77
<u>33. Personnel Expenses:</u>	78
<u>34. Administrative Expenses:</u>	79
<u>35. Depreciation, Amortization and Impairment:</u>	80
<u>36. Other Operating Income:</u>	81
<u>37. Other Operating Expenses:</u>	82
<u>38. Related Party Transactions:</u>	83
<u>39. Fair Value of Financial Assets and Liabilities:</u>	89
<u>40. Maturity of Assets and Liabilities:</u>	103
<u>41. Subsequent Events:</u>	105





Table of Contents**BANCO DE CHILE AND SUBSIDIARIES****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

For the periods ended June 30, 2016 and December 31, 2015

(Translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

	Notes	June 2016 MCh\$	December 2015 MCh\$
<b>ASSETS</b>			
Cash and due from banks	7	978,313	1,361,222
Transactions in the course of collection	7	626,653	526,046
Financial assets held-for-trading	8	1,441,372	866,654
Cash collateral on securities borrowed and reverse repurchase agreements	9	39,116	46,164
Derivative instruments	10	1,120,863	1,127,122
Loans and advances to banks	11	1,090,159	1,395,195
Loans to customers, net	12	24,099,024	23,956,275
Financial assets available-for-sale	13	583,290	1,000,001
Financial assets held-to-maturity	13		
Investments in other companies	14	29,352	28,126
Intangible assets	15	27,200	26,719
Property and equipment	16	216,239	215,671
Current tax assets	17	2,072	3,279
Deferred tax assets	17	282,130	255,972
Other assets	18	472,196	484,498
<b>TOTAL ASSETS</b>		<b>31,007,979</b>	<b>31,292,944</b>
<b>LIABILITIES</b>			
Current accounts and other demand deposits	19	7,859,630	8,327,048
Transactions in the course of payment	7	379,423	241,842
Cash collateral on securities lent and repurchase agreements	9	179,379	184,131
Savings accounts and time deposits	20	10,605,357	9,907,692
Derivative instruments	10	1,126,109	1,127,927
Borrowings from financial institutions	21	1,071,120	1,529,627
Debt issued	22	6,011,248	6,102,208
Other financial obligations	23	131,838	173,081
Current tax liabilities	17	16,617	27,993
Deferred tax liabilities	17	26,420	32,953
Provisions	24	496,164	639,043
Other liabilities	25	313,674	259,312
<b>TOTAL LIABILITIES</b>		<b>28,216,979</b>	<b>28,552,857</b>
<b>EQUITY</b>			
	27		
<b>Attributable to Bank's Owners:</b>			
Capital		2,138,047	2,041,173
Reserves		486,083	390,616
Other comprehensive income		10,272	57,709
Retained earnings:			
Retained earnings from previous periods		16,060	16,060
Income for the period		283,512	558,995

Edgar Filing: BANK OF CHILE - Form 6-K

Less:		
Provision for minimum dividends	(142,975)	(324,469)
Subtotal	<b>2,790,999</b>	<b>2,740,084</b>
<b>Non-controlling interests</b>	<b>1</b>	<b>3</b>
<b>TOTAL EQUITY</b>	<b>2,791,000</b>	<b>2,740,087</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>31,007,979</b>	<b>31,292,944</b>

The accompanying notes 1 to 41 are an integral part of these interim condensed consolidated financial statements

Table of Contents**BANCO DE CHILE AND SUBSIDIARIES****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the six-month ended June 30, 2016 and 2015

(Translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

	Notes	June 2016 MCh\$	June 2015 MCh\$
Interest revenue	28	968,438	873,961
Interest expense	28	(362,166)	(286,217)
<b>Net interest income</b>		<b>606,272</b>	<b>587,744</b>
Income from fees and commissions	29	216,603	205,618
Expenses from fees and commissions	29	(58,846)	(59,824)
<b>Net fees and commission income</b>		<b>157,757</b>	<b>145,794</b>
Net financial operating income	30	99,260	31,573
Foreign exchange transactions, net	31	6,403	20,899
Other operating income	36	16,739	14,128
<b>Total operating revenues</b>		<b>886,431</b>	<b>800,138</b>
Provisions for loan losses	32	(157,759)	(124,809)
<b>OPERATING REVENUES, NET OF PROVISIONS FOR LOAN LOSSES</b>		<b>728,672</b>	<b>675,329</b>
Personnel expenses	33	(206,620)	(184,066)
Administrative expenses	34	(157,958)	(139,385)
Depreciation and amortization	35	(16,566)	(14,692)
Impairment	35	(4)	(58)
Other operating expenses	37	(18,592)	(13,657)
<b>TOTAL OPERATING EXPENSES</b>		<b>(399,740)</b>	<b>(351,858)</b>
<b>NET OPERATING INCOME</b>		<b>328,932</b>	<b>323,471</b>
Income attributable to associates	14	1,831	1,745
<b>Income before income tax</b>		<b>330,763</b>	<b>325,216</b>
Income tax	17	(47,251)	(40,118)
<b>NET INCOME FOR THE PERIOD</b>		<b>283,512</b>	<b>285,098</b>
Attributable to:			
Bank's Owners		283,512	285,097
Non-controlling interests			1

Ch\$

Ch\$

Edgar Filing: BANK OF CHILE - Form 6-K

Net income per share attributable to Bank s Owners:			
Basic net income per share	27	2.95	2.97
Diluted net income per share	27	2.95	2.97

The accompanying notes 1 to 41 are an integral part of these interim condensed consolidated financial statements

Table of Contents**BANCO DE CHILE AND SUBSIDIARIES****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the six-month ended June 30, 2016 and 2015

(Translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

	Notes	June 2016 MCh\$	June 2015 MCh\$
<b>NET INCOME FOR THE PERIOD</b>		<b>283,512</b>	<b>285,098</b>
<b>Other comprehensive income that will be reclassified subsequently to profit or loss</b>			
Net change in unrealized gains (losses) on available for sale instruments	13	(55,946)	6,703
Gains and losses on derivatives held as cash flow hedges	10	(6,395)	3,556
Cumulative translation adjustment	27	(59)	
<b>Subtotal Other comprehensive income before income taxes</b>		<b>(62,400)</b>	<b>10,259</b>
Income tax		14,963	(2,254)
<b>Total other comprehensive income items that will be reclassified subsequently to profit or loss</b>		<b>(47,437)</b>	<b>8,005</b>
<b>Other comprehensive income that will not be reclassified subsequently to profit or loss</b>			
Loss in defined benefit plans			
<b>Subtotal other comprehensive income before income taxes</b>			
Income taxes			
<b>Total other comprehensive income items that will not be reclassified subsequently to profit or loss</b>			
<b>TOTAL CONSOLIDATED COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>236,075</b>	<b>293,103</b>
Attributable to:			
Bank's Owners		236,075	293,102
Non-controlling interests			1
		<b>Ch\$</b>	<b>Ch\$</b>
Net income per share attributable to Bank's Owners:			
Basic net income per share		2.46	3.05
Diluted net income per share		2.46	3.05

The accompanying notes 1 to 41 are an integral part of these interim condensed consolidated financial statements

Table of Contents**BANCO DE CHILE AND SUBSIDIARIES****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

For the six-month ended June 30, 2016 and 2015

(Translation of financial statements originally issued in Spanish)

(Expressed in millions of Chilean pesos)

	Notes	Reserves		Other comprehensive income			Retained earnings			Attributable to equity holders of the parent MCh\$	
		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 (losses) for the period MCh\$		Provision for minimum dividends MCh\$
<b>Balances as of December 31, 2014</b>		1,944,920	31,834	231,424	33,962	10,086	57	16,379	591,080	(324,588)	2,535,154
Capitalization of retained earnings		96,253							(96,253)		
Income retention (released) according to law	27			127,383					(127,383)		
Dividends distributions and paid	27								(367,444)	324,588	(42,856)
Other comprehensive income:	27										
Cumulative translation adjustment											
Derivatives cash flow hedge, net						2,756					2,756
Valuation adjustment on available-for-sale instruments (net)					5,249						5,249
Income for the period 2015									285,097		285,097
Equity adjustment investment in other companies			(1)					(319)			(320)
Provision for minimum dividends										(175,579)	(175,579)
<b>Balances as of June 30, 2015</b>		<b>2,041,173</b>	<b>31,833</b>	<b>358,807</b>	<b>39,211</b>	<b>12,842</b>	<b>57</b>	<b>16,060</b>	<b>285,097</b>	<b>(175,579)</b>	<b>2,609,501</b>
Dividends distribution and paid											

(24)

(24)

Edgar Filing: BANK OF CHILE - Form 6-K

Defined benefit plans adjustment											
Other comprehensive income:											
Cumulative translation adjustment						2					2
Derivatives cash flow hedge, net					4,972						4,972
Valuation adjustment on available-for-sale instruments (net)			625								625
Income for the period 2015								273,898			273,898
Provision for minimum dividends									(148,890)		(148,890)
<b>Balances as of December 31, 2015</b>		<b>2,041,173</b>	<b>31,809</b>	<b>358,807</b>	<b>39,836</b>	<b>17,814</b>	<b>59</b>	<b>16,060</b>	<b>558,995</b>	<b>(324,469)</b>	<b>2,740,084</b>
Capitalization of retained earnings		96,874							(96,874)		
Income retention (released) according to law	27		95,467						(95,467)		
Dividends distributions and paid	27								(366,654)	324,469	(42,185)
Other comprehensive income:	27										
Cumulative translation adjustment							(59)				(59)
Derivatives cash flow hedge, net					(4,860)						(4,860)
Valuation adjustment on available-for-sale instruments (net)				(42,518)							(42,518)
Income for the period 2016								283,512			283,512
Provision for minimum dividends	27								(142,975)		(142,975)
<b>Balances As of June 30, 2016</b>		<b>2,138,047</b>	<b>31,809</b>	<b>454,274</b>	<b>(2,682)</b>	<b>12,954</b>		<b>16,060</b>	<b>283,512</b>	<b>(142,975)</b>	<b>2,790,999</b>

The accompanying notes 1 to 41 are an integral part of these interim condensed consolidated financial statements



Table of Contents**BANCO DE CHILE AND SUBSIDIARIES****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the six-month ended June 30, 2016 and 2015

(Translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

	Notes	June 2016 MCh\$	June 2015 MCh\$
<b>OPERATING ACTIVITIES:</b>			
Net income for the period		283,512	285,098
Items that do not represent cash flows:			
Depreciation and amortization	35	16,566	14,692
Impairment of intangible assets and property and equipment	35	4	58
Provision for loan losses	32	135,169	150,141
Provision of contingent loans	32	(8,418)	664
Additional provisions	32	52,075	
Fair value adjustment of financial assets held-for-trading		(3,382)	140
(Gain) loss attributable to investments in other companies	14	(1,527)	(1,448)
(Gain) loss from sales of assets received in lieu of payment net	36	(2,845)	(1,394)
(Gain) loss on sales of property and equipment	36-37	(60)	(59)
(Increase) decrease in other assets and liabilities		40,933	(151,837)
Charge-offs of assets received in lieu of payment	37	2,516	865
Other charges (credits) to income that do not represent cash flows		(14,065)	370
Net changes from foreign exchange transactions of other assets and other liabilities		30,018	(346,331)
Net interest variation, readjustment and accrued fees on assets and liabilities		(108,902)	119,941
Changes in assets and liabilities that affect operating cash flows:			
(Increase) decrease in loans and advances to banks, net		304,371	(314,307)
(Increase) decrease in loans to customers		(205,071)	(894,736)
(Increase) decrease in financial assets held-for-trading, net		(509,444)	(20,933)
(Increase) decrease in deferred taxes, net	17	(19,263)	(6,755)
Increase (decrease) in current account and other demand deposits		(466,592)	278,255
Increase (decrease) in payables from repurchase agreements and security lending		(5,440)	(4,142)
Increase (decrease) in savings accounts and time deposits		677,734	190,927
Proceeds from sale of assets received in lieu of payment		6,781	3,580
<b>Total cash flows from operating activities</b>		<b>204,670</b>	<b>(697,211)</b>
<b>INVESTING ACTIVITIES:</b>			
(Increase) decrease in financial assets available-for-sale, net		242,410	260,997
Purchases of property and equipment	16	(12,697)	(11,296)
Proceeds from sales of property and equipment		80	217
Purchases of intangible assets	15	(4,757)	(4,529)
Purchases of investments in other companies	14		
Dividends received from investments in other companies	14	506	632
<b>Total cash flows from investing activities</b>		<b>225,542</b>	<b>246,021</b>
<b>FINANCING ACTIVITIES:</b>			
Redemption of mortgage finance bonds		(4,057)	(7,531)
Proceeds from bond issuances	22	708,048	1,125,714

Edgar Filing: BANK OF CHILE - Form 6-K

Redemption of bond issuances		(730,928)	(400,676)
Subscription and payment of shares			
Dividends paid	27	(366,654)	(367,444)
Increase (decrease) in borrowings from foreign financial institutions		(458,881)	215,783
Increase (decrease) in other financial obligations		(39,460)	(7,332)
Increase (decrease) in borrowings from Central Bank of Chile		(1)	(1)
Other borrowings long-term		17,794	13,748
Payment of other borrowings long-term		(19,231)	(15,247)
<b>Total cash flows from financing activities</b>		<b>(893,370)</b>	<b>557,014</b>
<b>TOTAL NET POSITIVE (NEGATIVE) CASH FLOWS FOR THE PERIOD</b>		<b>(463,158)</b>	<b>105,824</b>
Net effect of exchange rate changes on cash and cash equivalents		<b>(30,018)</b>	<b>23,578</b>
Cash and cash equivalents at beginning of year		<b>2,093,908</b>	<b>1,825,578</b>
Cash and cash equivalents at end of period	7	<b>1,600,732</b>	<b>1,954,980</b>

		June 2016 MCh\$	June 2015 MCh\$
<b>Operational Cash flow interest:</b>			
Interest received		904,419	860,457
Interest paid		(407,049)	(152,772)

The accompanying notes 1 to 41 are an integral part of these interim condensed consolidated financial statements

Table of Contents

**BANCO DE CHILE AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

---

**1. Corporate information:**

Banco de Chile is authorized to operate like a commercial bank since June 17, 1996, in conformity with the Article 25 of Law No, 19,396, Banco de Chile, resulting from the merger of Banco Nacional de Chile, Banco Agrícola and Banco de Valparaíso, was formed on October 28, 1893 in the city of Santiago, in the presence of the Notary Eduardo Reyes Lavalle.

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 or Superintendency ). 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 Banco de Chile additionally follows the regulations published by the United States Securities and Exchange Commission ( SEC ).

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, insurance brokerage, financial advisory and securitization.

Banco de Chile's legal address is Paseo Ahumada 251, Santiago, Chile and its website is [www.bancochile.cl](http://www.bancochile.cl).

The Interim Condensed Consolidated Financial Statements of Banco de Chile, for the period ended June 30, 2016 were approved for issuance in accordance with the directors on July 28, 2016.

**2. Legal provisions, basis of preparation and other information:**

**(a) 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.

## Edgar Filing: BANK OF CHILE - Form 6-K

Based on the aforementioned laws, banks should use the criteria provided by the Superintendency in accordance with the Compendium of Accounting Standards ( Compendium ), 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.

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**2. Legal provisions, basis of preparation and other information, continued:****(b) Basis of preparation:**

(b.1) These Interim Condensed Consolidated Financial Statements are presented according to Chapter C-2 of the Compendium of Accounting Standards, issued by the Superintendency of Banks and Financial Institutions (SBIF).

(b.2) The following table details the entities in which the Bank has controlling interest and that are therefore consolidated in these financial statements:

RUT	Subsidiaries	Country	Functional Currency	Direct		Interest Owned Indirect		Total	
				June 2016 %	December 2015 %	June 2016 %	December 2015 %	June 2016 %	December 2015 %
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
96,571,220-8	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\$	99.01	99.01	0.99	0.99	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

(\*) On May 29, 2014 the Board of Directors of Banco de Chile agreed to dissolve liquidate and terminate the Society, after ending all the administrative processes required by regulators, the dissolution was formally declared on July 5th, 2016. (See Note No.41).

**(c) Use of estimates and judgment:**

Preparing financial statements requires management to make judgments, estimations and assumptions that affect the application of accounting policies and the valuation of assets, liabilities, income and expenses presented. Real results could differ from these estimated amounts. Details

## Edgar Filing: BANK OF CHILE - Form 6-K

on the use of estimates and judgment and their effect on the amounts recognized in the Interim Condensed Consolidated Financial Statement are included in the following notes:

1. Useful lives of property and equipment and intangible assets (Notes No.15 and No.16);
2. Income taxes and deferred taxes (Note No. 17);
3. Provisions (Note No. 24);
4. Contingencies and Commitments (Note No. 26);
5. Provision for loan losses (Note No. 11. No. 12 and No. 32);
6. Fair value of financial assets and liabilities (Note No. 39).

Estimates and relevant assumptions are regularly reviewed by the management of the Bank, according to quantify certain assets, liabilities, gains, loss and commitments. Estimates reviewed are registered in income in the period that the estimate is reviewed.

Table of Contents

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued**

---

**2. Legal provisions, basis of preparation and other information, continued:**

**(c) Use of estimates and judgment, continued:**

During year 2016 it was implemented rules changes related to Compendium of Accounting Rules of Superintendency of Banks and Financial Institutions (SBIF), established in Circulars No. 3,573, No. 3,584 and No. 3,604. The net effect of these changes on results meant a credit for Ch\$653 million, according to the following detail:

- a) It enlarges risk classifications until A3 for guarantees with the objective of replace the credit quality of the debtor by the guarantee at the moment to make the provision. This impacted in a provision release of Ch\$2,125 million.
- b) New rule to specific provisions for factoring operations, that allows the substitution of the credit quality of the grantor by the bill acceptor, as long as this is classified in a category up to A3 or major. This impacted in a provision release of Ch\$2,420 million.
- c) New definition of default according to Circular No. 3,584 of June 22, 2015, which required recalibration of the models of group provisions. The latter implied a higher charge to income of Ch\$ 13,443 million in the first half.
- d) Changes in the percentage of credit equivalent for the free disposition credit lines, which decreased from 50% to 35%. This change implied a credit to income for Ch\$9,551 million.

During the period of June 30, 2016, there have not been others significant changes in the estimates.

**(d) Seasonality or Cyclical Character of the Transactions of the Intermediate Period:**

Due to the nature of its business, the Bank and its subsidiaries activities do not have a cyclical or seasonal character. Accordingly, no specific details have been included on the notes to this Interim Condensed Consolidated Financial Statements with the information regarding the period of six-month ended June 30, 2016.

(e) **Relative Importance:**

When determining the information to present on the different items from the financial statements or other subjects, the Bank has considered the relative importance in relation to the Interim Condensed Consolidated financial statements of the period.



Table of Contents

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued**

---

**2. Legal provisions, basis of preparation and other information, continued:**

**(f) Reclassifications:**

On May 25, 2015 the Superintendency of Banks and Financial Institutions issued a Circular No. 3,583; which it modifies the Chapter C-3 of Compendium of Accounting Rules establishing a new opening for classification of credits for higher education inside of Commercial Loans.

This modification implied the reclassification of higher education loans from Consumer Loans to Commercial Loans by an amount of Ch\$43,201 million, as of June 30, 2016. See Note No. 12 (a.i).

There have not been others significant reclassifications at the end of this period 2016.

Table of Contents

**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 Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that it is not effective as of June 30, 2016:

**IFRS 9 Financial Instruments**

The July 24, 2014, IASB completed its upgrade project about accounting for financial instruments with the publication of IFRS 9 Financial Instruments.

This standard includes new requirements based on new principles for the classification and measurement; it introduces a prospective model of expected credit losses on impairment accounting and changes in hedge accounting.

The classification determines how financial assets and liabilities are accounted in financial statements and, in particular, how they are measured. IFRS 9 introduces a new approach for the classification of financial assets, based in the business model of the entity for the management of financial assets and the characteristic of its contractual flows.

In terms of impairment standard establishes a single model that applies to all financial instruments, thus eliminating a source of complexity associated with previous accounting requirements, which require a timely recognition of expected credit losses.

IFRS 9 introduces changes to the requirements for accounting hedge, and also new alternatives of strategies to use. The amendments means a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

IFRS 9 established that the fair value of credit risk of the entity shall be recognized in Other Comprehensive Income, allowing decrease any eventual volatility that would be generated in the income of the entity, because its recognition. IFRS 9 permits early application of this improvement, before any other requirement of IFRS 9.

## Edgar Filing: BANK OF CHILE - Form 6-K

Mandatory adoption date is January 1, 2018. Early application is permitted.

Banco de Chile and its subsidiaries are assessing the possible impact of adoption of these changes on the consolidated financial statements. The Superintendency of Banks and Financial Institutions has not approved this rule. This event is required to its application.

Table of Contents

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued**

---

**3. New Accounting Pronouncements, continued:**

**IFRS 15 Revenue from Contracts with Customers**

In May 2014 was issued IFRS 15, which it has like purpose established the principles that will apply an entity to present util information to users of financial statements about the nature, amount, opportunity and uncertainty of the income for ordinaries activities and cash flows that it is related to a contract with a client.

This new rule replace the following current rules and interpretations: IAS 18 Revenue, IAS 11 Construction contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real State, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue: Barter Transactions involving.

The new model will apply to all contracts with customers, except those that are inside to the scope of the others IFRS, such as leases, insurance contracts and financial instruments.

On April 12, 2016, IASB issued amendments to IFRS 15, clarifying requirements and providing a temporary relief to companies that are implementing the new standard.

In short the amendments clarify how:

- a) Identify a performance obligation (the promise to transfer a good or service to a customer) in a contract;
- b) Determining whether a company is the principal (the provider of a good or service) or an agent (the organization responsible for the good or service provided); and
- c) Determine whether the product of a license must be recognized at a point in time or over time.

The date of application of this new standard starts in January 1, 2018, earlier application is permitted.

Banco de Chile and its subsidiaries are assessing the impact of the adoption of this rule.

**IFRS 16 Leases**

On January 2016 was issued IFRS 16, which has as purpose to stablish principles to recognize, measurement, presentation and disclosure of leases contracts, for both lessee and lessor.

This new rule is no different to the previous rule, IAS 17 Leases, related to the accounting treatment for the lessor. However, related to the lessee, the new rule requires recognize the assets and liabilities, so eliminate the differences between financial and operating lease.

The effective date of application is beginning January 1, 2019. It is permitted its early application but, only if it is applied IFRS 15 also.

Banco de Chile and its subsidiaries are assessing the impact of this rule.

Table of Contents

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued**

---

**3. New Accounting Pronouncements, continued:**

**IAS 7 Statement of Cash Flows**

On January 2016, the IASB has published amendments to IAS 7, which has as objective that entities shall provide additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from financing cash flows and other changes that are not cash flows.

The amendments are effective for annual periods beginning on or after 1 January 2017, earlier application is permitted.

Banco de Chile and its subsidiaries will host and apply these provisions, as long as the issuing date of the financial statements these changes in liabilities have existed, and that deserve to be disclosed in accordance with the new requirements.

**IAS 12 Income Taxes**

On January 2016, the IASB has published amendments to IAS 12, to clarify the recognition of deferred tax assets on debt instruments measured at fair value, assessing if the Bank has probability to generate futures fiscal income for use the deductible temporary difference.

The amendments are effective for annual periods beginning on or after 1 January 2017, earlier application is permitted.

This standard will not impact financial statements of Banco de Chile and its subsidiaries.

**IAS 28 Investments in Associates and Join Venture and IFRS 10 - Consolidated Financial Statements**

## Edgar Filing: BANK OF CHILE - Form 6-K

In September 2014, the IASB issued this amendment, which clarifies the scope of recognized gains and losses in a transaction involving an associate or joint venture, and this depends on whether the asset sold or contribution is a business. Therefore, IASB concluded that all of the profit or loss should be recognized against loss of control of a business. Likewise, gains or losses resulting from the sale or contribution of a subsidiary that is not a business (definition of IFRS 3) to an associate or joint venture should be recognized only to the extent of unrelated interests in the associate or joint venture.

On December 2015, the IASB agreed that the amendments should apply in the future, and its early application is permitted.

This amendment will not impact financial statements of Banco de Chile and its subsidiaries.

#### **4. Changes in Accounting policies and Disclosures:**

During the period ended June 30, 2016, changes have occurred in accounting estimates result of instructions issued by the Superintendency of Banks and Financial Institutions. See Note No. 2 C).

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

---

**5. Relevant Events:**

a) On January 28, 2016, in the Ordinary Meeting No. BCH 2832, the Board of Directors of Banco de Chile resolved to call an Ordinary Shareholders Meeting to be held on March 24th, 2016, with the objective of proposing, among other matters, the distribution of the Dividend number 204 of \$3.37534954173 per each of the 96,129,146,433 shares, which will be payable at the expense of the distributable net income obtained during the fiscal year ending on December 31st, 2015, corresponding to the 70% of such income.

Likewise, the Board of Directors resolved to call an Extraordinary Shareholders Meeting to be held on the same date in order to propose, among other matters, the capitalization of the 30% of the distributable net income of the Bank obtained during the fiscal year ending on December 31st, 2015, through the issuance of fully paid-in shares, of no par value, with a value \$64.79 per share, which will be distributed among the shareholders in the proportion of 0.02232718590 shares for each share and to adopt the necessary agreements subject to the exercise of the options established in article 31 of Law 19,396.

Moreover, the Board, according to the established in No. 3.2 Chapter B4 of Compendium of Accounting Standards of the Superintendency of Banks and Financial Institutions, about minimum dividends provision, agreed to establish that since January 2016 it will constitute provision by the 60% of distributable net income that it will be accumulating during the each period.

b) The Board of Directors of Banco de Chile, in Meeting No. BCH 2,835 held on March 24, 2016, agreed to accept the resignation of the CEO Mr. Arturo Tagle Quiroz, effective April 30, 2016.

Likewise, in the above referred Meeting the Board appointed Mr. Eduardo Ebersperger Orrego as CEO of Banco de Chile, effective May 1, 2016.

Lastly, Mr. Arturo Tagle Quiroz was appointed as advisor to the Board of Directors effective May 1, 2016.

c) On March 29, 2016 Banco de Chile informed as Essential Information that Central Bank of Chile has communicated to Banco de Chile that the Board of such institution, in Special Session No 1967E, held on March 28, 2016, considering the resolutions adopted by the shareholders meetings of Banco de Chile of March 24, 2016, regarding distribution of dividends and the increase of capital through the issuance of fully paid-in shares



corresponding to the 30% of the net income obtained during the fiscal year ending on December 31, 2015, resolved to take the option that the entirety of its corresponding surplus, including the part of the profits proportional to the agreed capitalization, be paid to the Central Bank of Chile in cash currency, according to the letter b) of the article 31 of the law No 19,396, regarding a modification of the way of payment of the subordinated obligation and other applicable legislation.

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

---

**5. Relevant Events, continued:**

d) In the Board Meeting held on May 19, 2016, the Board of the subsidiary Banchile Corredores de Bolsa S.A. He accepted the resignation of General Manager, Mr. Andrés Bucher Cepeda, presented on 5 May 2016. The Board also agreed to appoint Mr. Andrés Ergas Heller as Acting General Manager.

e) At the Board Meeting held on May 20, 2016, the Board of Directors of the subsidiary Banchile Asesoría Financiera S.A. The resignation presented by director Don Arturo Tagle Quiroz was accepted, proceeding to appoint Mr. José Miguel Quintana Malfanti as alternate until the next Ordinary Shareholders Meeting. Additionally, in that board meeting it was agreed to appoint Mr. Alfonso Yáñez Fernández as General Manager of Banchile Asesoría Financiera S.A., replacing Mr. Jorge Muñoz Apará, who submitted his resignation as General Manager dated May 5, 2016.

f) On June 23, 2016, Banco de Chile reported in connection with the capitalization of 30% of the net profit for distributable the year 2015, by issuing bonus shares agreed at an Extraordinary Meeting of Shareholders held on 24 March 2016, the following:

- In the aforementioned Extraordinary Shareholders Meeting, agreed to increase the Bank's capital in the amount of 96,874,072,595 by issuing 1,495,200,997 bonus shares with no nominal value, payable under the distributable net income for the year 2015 which was not distributed as dividend as agreed at the Ordinary Shareholders Meeting held on the same day.

The Superintendency of Banks and Financial Institutions (SBIF) approved the amendment of the by-laws, through Resolution N°162 of May 13 this year, which was registered in the Registry of Commerce of Santiago fs. 35.404 No.19,610 of 2016 and published in the Official Journal on May 20, 2016.

The issue of bonus shares was registered in the Securities Registry of the aforementioned Superintendency under N° 4/2016, dated June 16, 2016.

Edgar Filing: BANK OF CHILE - Form 6-K

- The board of Banco de Chile, in Session No. BCH 2,840, dated June 23, 2016, agreed to set a date for the issuance and distribution of bonus shares on July 7, 2016.
- They will be entitled to receive the new shares at the rate of bonus shares 0.02232718590 per share, shareholders who are registered in the Register of Shareholders of the company at 1st July 2016.
- The respective titles will be properly allocated to each shareholder, and will only be printed for those who henceforth request by written at the Department of Shares of Banco de Chile.

Table of Contents

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued**

---

**5. Relevant Events, continued:**

- As a result of the issuance of bonus shares, the Bank's capital is divided into 97,624,347,430 shares with no nominal value, fully subscribed and paid.

g) During this period it took place the process of Collective Bargaining between the subsidiary Socofin and the Socofin Company Union S.A., signing a Collective Bargaining Agreement for four years (2016-2020).

Table of Contents

**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 70,000UF, 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 70,000UF, 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 Administradora General de Fondos S.A.
- Banchile Asesoría Financiera S.A.
- Banchile Corredores de Seguros Ltda.
- Banchile Corredores de Bolsa S.A.
- Banchile Securitizadora S.A.
- Banchile Trade Services Limited (\*)
- Socofin S.A.
- Promarket S.A.

---

(\*) See Note No 41.

Table of Contents

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 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 applying the following criteria:

- The net interest margin of loans and deposits is obtained aggregating the net financial margins of each individual operation of credit and uptake made by the bank. For these purposes is considered the volume of each operation and its contribution margin, stemming from the difference between the effective customer rate and the related Bank's fund transfer price in terms of maturity 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 parties that exceed 10% or more of its total income during the six-month period ended June 30, 2016 and 2015.

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

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**6. Segment Reporting, continued:**

The following table presents the income by segment for the periods ended June 2016 and 2015 for each of the segments defined above:

	Retail		Wholesale		Treasury		Subsidiaries		Subtotal		Consolidation adjustment		Total	
	June 2016	June 2015	June 2016	June 2015	June 2016	June 2015	June 2016	June 2015	June 2016	June 2015	June 2016	June 2015	June 2016	June 2015
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Net interest income	430,735	409,176	168,049	169,358	9,015	11,343	(2,067)	(3,210)	605,732	586,667	540	1,077	606,272	587,744
Net fees and commissions income (loss)	80,672	70,177	21,271	23,175	(1,064)	(908)	65,797	61,677	166,676	154,121	(8,919)	(8,327)	157,757	145,794
Other operating income	72,106	10,340	12,498	24,704	27,331	21,176	12,261	12,682	124,196	68,902	(1,794)	(2,302)	122,402	66,600
Total operating revenue	583,513	489,693	201,818	217,237	35,282	31,611	75,991	71,149	896,604	809,690	(10,173)	(9,552)	886,431	800,138
Provisions for loan losses (*)	(154,807)	(114,709)	(2,948)	(10,164)			(4)	64	(157,759)	(124,809)			(157,759)	(124,809)
Depreciation and amortization	(12,075)	(10,547)	(2,821)	(2,673)	(131)	(194)	(1,539)	(1,278)	(16,566)	(14,692)			(16,566)	(14,692)
Other operating expenses	(254,005)	(223,532)	(76,301)	(69,410)	(3,210)	(2,981)	(59,831)	(50,795)	(393,347)	(346,718)	10,173	9,552	(383,174)	(337,166)
Income attributable to associates	1,144	1,206	389	233	36	18	262	288	1,831	1,745			1,831	1,745
Income before income taxes	163,770	142,111	120,137	135,223	31,977	28,454	14,879	19,428	330,763	325,216			330,763	325,216
Income taxes													(47,251)	(40,118)
Income after income taxes													283,512	285,098

(\*) At June 30, 2016, the Retail and Wholesale segments include additional provisions assigned according to their risk-weighted assets.



Edgar Filing: BANK OF CHILE - Form 6-K

The following table presents assets and liabilities of the period ended June 30, 2016 and December 31, 2015 by each segment defined above:

	Retail		Wholesale		Treasury		Subsidiaries		Subtotal		Consolidation adjustment		Total
	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Assets	14,858,110	14,431,003	11,432,635	11,866,488	4,067,977	4,362,051	591,514	523,080	30,950,236	31,182,622	(226,459)	(148,929)	30,725,257
Current and deferred taxes													28,146,000
Total assets													31,000,000
Liabilities	9,867,669	9,726,434	10,084,889	9,934,304	7,991,997	8,605,278	455,846	374,824	28,400,401	28,640,840	(226,459)	(148,929)	28,146,000
Current and deferred taxes													4,000,000
Total liabilities													28,216,000

Table of Contents

## 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 period-end are detailed as follows:

	<b>June 2016 MCh\$</b>	<b>December 2015 MCh\$</b>
Cash and due from banks:		
Cash (*)	518,159	672,253
Current account with the Chilean Central Bank (*)	129,665	111,330
Deposits in other domestic banks	6,257	9,676
Deposits abroad	324,232	567,963
Subtotal - Cash and due from banks	978,313	1,361,222
Net transactions in the course of collection	247,230	284,204
Highly liquid financial instruments	341,554	407,111
Repurchase agreements	33,635	41,371
Total cash and cash equivalents	1,600,732	2,093,908

(\*) 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 24 to 48 business hours, and are detailed as follows:

	<b>June 2016 MCh\$</b>	<b>December 2015 MCh\$</b>
<b>Assets</b>		
Documents drawn on other banks (clearing)	222,312	293,908
Funds receivable	404,341	232,138
Subtotal transactions in the course of collection	626,653	526,046

Edgar Filing: BANK OF CHILE - Form 6-K

**Liabilities**

Funds payable	(379,423)	(241,842)
Subtotal transactions in the course of payment	(379,423)	(241,842)
Net transactions in the course of collection	247,230	284,204

Table of Contents

## 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:

	<b>June 2016 MCh\$</b>	<b>December 2015 MCh\$</b>
<b>Instruments issued by the Chilean Government and Central Bank of Chile:</b>		
Central Bank bonds	92,286	46,068
Central Bank promissory notes	273,245	103,832
Other instruments issued by the Chilean Government and Central Bank	259,364	100,016
<b>Other instruments issued in Chile</b>		
Bonds from domestic banks		21
Deposits in domestic banks	752,276	583,217
Other instruments issued in Chile	40	10,420
<b>Instruments issued by foreign institutions</b>		
Instruments from foreign governments or central banks		
Other instruments issued abroad		
<b>Mutual fund investments:</b>		
Funds managed by related companies	64,161	23,080
Funds managed by thirds		
Total	1,441,372	866,654

In Instruments issued by the Chilean Government and Central Bank of Chile are classified instruments sold under agreements to repurchase to customers and financial instruments, by an amount of Ch\$36,447 million as of June 30, 2016 (Ch\$9,244 million as of December 31, 2015).

Repurchase agreements have an average expiration of 4 days as of period-end (6 days in December 2015).

Other instruments issued in Chile include instruments sold under agreements to repurchase to customers and financial instruments, amounting to Ch\$122,042 million as of June 30, 2016 (Ch\$149,333 million as of December 31, 2015).

Agreements to repurchase have an average expiration of 8 days as of period-end (10 days in December 2015).

Additionally, the Bank holds financial investments in mortgage finance bonds issued by itself in the amount of Ch\$22,564 million as of June 30, 2016 (Ch\$25,303 million as of December 31, 2015), which are presented as a reduction of the liability line item Debt issued .

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

9. **Cash collateral on securities borrowed and reverse repurchase agreements:**

(a) Rights for repurchase contracts: 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 June 30, 2016 and December 31, 2015, the Bank has the following receivables resulting from such transactions:

	Up to 1 month		Over 1 month and to 3 months		Over 3 months and to 12 months		Over 1 year and up to 3 years		Over 3 years and up to 5 years		Over 5 years		Total	
	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015
<b>Instruments issued by the Chilean Governments and Central Bank of Chile</b>	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Central Bank bonds														
Central Bank promissory notes														
Other instruments issued by the Chilean Government and Central Bank														
<b>Other Instruments issued in Chile</b>														
Deposit promissory notes from domestic banks														
Mortgage bonds from domestic banks														

Edgar Filing: BANK OF CHILE - Form 6-K

Bonds from domestic banks									
Deposits in domestic banks		3,461							3,461
Bonds from other Chilean companies									
Other instruments issued in Chile	13,526	32,448	23,340	8,704	2,250	1,551		39,116	42,703
<b>Instruments issued by foreign institutions</b>									
Instruments from foreign governments or central bank									
Other instruments									
<b>Total</b>	<b>13,526</b>	<b>35,909</b>	<b>23,340</b>	<b>8,704</b>	<b>2,250</b>	<b>1,551</b>		<b>39,116</b>	<b>46,164</b>

**Securities received:**

The Bank has received securities that it is allowed to sell or pledge in the absence of default by the owner. As of June 30, 2016 the Bank and its subsidiaries held securities on resell agreements with a fair value of Ch\$38,529 million (Ch\$46,324 million as of December, 2015).

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**9. Cash collateral on securities lent and repurchase agreements, continued:**

(b) Liabilities for repurchase contracts: The Bank obtains financing by selling financial instruments and committing to purchase them at future dates, plus interest at a prefixed rate. As of June 30, 2016 and December 31, 2015, the Bank has the following payables resulting from such transactions:

	Up to 1 month		to 3 months		up to 12 months		3 years		to 5 years		Over 5 years		Total	
	June	December	June	December	June	December	June	December	June	December	June	December	June	December
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Instruments issued by the Chilean Governments and Central Bank of Chile</b>														
Central Bank bonds				3,052										3,052
Central Bank promissory notes	35,490	7,301	950										36,440	7,301
Other instruments issued by the Chilean Government and Central Bank				1,942										1,942
<b>Other Instruments Issued in Chile</b>														
Deposit promissory notes from domestic banks														
Mortgage bonds from domestic banks														



Edgar Filing: BANK OF CHILE - Form 6-K

Bonds from domestic banks							
Deposits in domestic banks	135,163	158,156	7,776	13,680		142,939	171,836
Bonds from other Chilean companies							
Other instruments issued in Chile							
<b>Instruments issued by foreign institutions</b>							
Instruments from foreign governments or central bank							
Other instruments							
<b>Total</b>	<b>170,653</b>	<b>170,451</b>	<b>8,726</b>	<b>13,680</b>		<b>179,379</b>	<b>184,131</b>

**Securities given:**

The carrying amount of securities lent and of Payables from Repurchase Agreements and Security Lending as of June 30, 2016 is Ch\$179,207 million (Ch\$184,919 million in December 2015). The counterparty is allowed to sell or pledge those securities in the absence of default by the Bank.

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

## 10. Derivative Instruments and Accounting Hedges:

(a) As of June 30, 2016 and 2015, the Bank's portfolio of derivative instruments is detailed as follows:

	Notional amount of contract with final expiration date in												Ass	
	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 years and up to 5 years		Over 5 years			June 2016
	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015		
MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
<b>Derivatives held for hedging purposes</b>														
Cross currency swap												18,036	19,222	
Interest rate swap					21,293	14,947	3,316	11,332	81,844	66,504	118,257	81,271		
<b>Total derivatives held for hedging purposes</b>					21,293	14,947	3,316	11,332	81,844	66,504	136,293	100,493		
<b>Derivatives held as cash flow hedges</b>														
Interest rate swap and cross currency swap	139,596			103,638	125,963	201,723	522,962	441,930	189,248	318,240	311,642	306,582	130,722	
<b>Total derivatives held as cash flow hedges</b>	139,596			103,638	125,963	201,723	522,962	441,930	189,248	318,240	311,642	306,582	130,722	
<b>Derivatives held-for-trading purposes</b>														
Currency forward	5,614,072	6,361,172	3,193,472	5,658,682	7,531,569	6,392,029	387,273	1,097,148	55,394	79,217	6,632		223,343	
Interest rate swap	1,482,529	1,444,510	4,099,248	3,626,015	7,000,669	8,414,998	9,374,950	9,190,933	4,757,703	5,063,262	5,911,926	5,676,905	289,853	
Cross currency swap	329,994	1,283,607	456,960	835,357	2,110,962	1,369,605	1,887,848	2,370,091	1,801,290	1,513,471	2,776,779	2,394,036	472,179	
Call currency options	33,693	25,127	85,043	69,802	88,318	77,364	4,245	35					921	
Put currency options	24,710	16,503	48,768	50,578	59,769	66,038	3,250	35					3,845	
<b>Total derivatives of negotiation</b>	7,484,998	9,130,919	7,883,491	10,240,434	16,791,287	16,320,034	11,657,566	12,658,242	6,614,387	6,655,950	8,695,337	8,070,941	990,141	
<b>Total</b>	7,624,594	9,130,919	7,883,491	10,344,072	16,938,543	16,536,704	12,183,844	13,111,504	6,885,479	7,040,694	9,143,272	8,478,016	1,120,863	



Table of Contents

## 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 in financial instruments. The aforementioned hedge instruments change the effective cost of long-term issuances from a fixed interest rate to a floating 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 June 30, 2016 and December 31, 2015:

	<b>June 2016 MCh\$</b>	<b>December 2015 MCh\$</b>
<b>Hedge element</b>		
Commercial loans	18,036	19,222
Corporate bonds	224,710	174,054
<b>Hedge instrument</b>		
Cross currency swap	18,036	19,222
Interest rate swap	224,710	174,054

## (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 and foreign exchange of obligations with foreign banks and bonds issued abroad in USA dollars, Hong Kong dollars, Peruvian Nuevo Sol, Swiss Franc, Japanese Yens and Euros. 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 income financial statements.



Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**10. Derivative Instruments and Accounting Hedges, continued:**

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

Hedge element	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 years and up to 5 years		Over 5 years		Total	
	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Hedge element</b>														
Outflows:														
Corporate Bond EUR					(573)	(602)	(1,146)	(1,207)	(1,146)	(1,207)	(37,367)	(39,340)	(40,232)	(42,300)
Corporate Bond HKD			(4,379)		(7,635)	(12,852)	(23,998)	(25,658)	(72,915)	(79,631)	(343,176)	(368,924)	(452,103)	(487,000)
Corporate Bond PEN					(618)	(636)	(15,437)	(16,219)					(16,055)	(16,800)
Corporate Bond CHF	(153,745)	(255)		(108,678)	(90,483)	(166,473)	(261,843)	(279,477)	(120,421)	(217,702)			(626,492)	(772,500)
Obligation USD	(517)	(678)			(67,878)	(1,736)	(147,444)	(229,377)					(215,839)	(231,700)
Corporate Bond JPY			(344)	(314)	(72,248)	(66,316)	(52,174)	(1,901)	(32,993)	(76,302)	(32,465)	(29,853)	(190,224)	(174,600)
<b>Hedge instrument</b>														
Inflows:														
Corporate Bond EUR					573	602	1,146	1,207	1,146	1,207	37,367	39,340	40,232	42,300
Cross Currency Swap HKD			4,379		7,635	12,852	23,998	25,658	72,915	79,631	343,176	368,924	452,103	487,000
Cross Currency Swap PEN					618	636	15,437	16,219					16,055	16,800
Cross Currency Swap CHF	153,745	255		108,678	90,483	166,473	261,843	279,477	120,421	217,702			626,492	772,500
Cross Currency Swap USD	517	678			67,878	1,736	147,444	229,377					215,839	231,700

Edgar Filing: BANK OF CHILE - Form 6-K

Cross Currency Swap JPY	344	314	72,248	66,316	52,174	1,901	32,993	76,302	32,465	29,853	190,224	174,6
Net cash flows												

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**10. Derivative Instruments and Accounting Hedges, continued:**

(c.2) Below are the cash flows from underlying assets and the cash flows of the liability part of the derivative instrument:

Hedge element	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 years and up to 5 years		Over 5 years		Total	
	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
<b>Inflows:</b>														
Cash flows in CLF	142,605	2,961	5,461	107,007	150,680	231,948	570,270	494,015	211,868	345,015	363,286	359,902	1,444,170	1,540,000
<b>Outflows:</b>														
Cross Currency Swap HKD			(3,152)		(6,041)	(9,062)	(18,306)	(17,999)	(63,746)	(63,301)	(291,398)	(288,281)	(382,643)	(378,000)
Cross Currency Swap PEN					(501)	(493)	(16,150)	(16,135)					(16,651)	(16,651)
Cross Currency Swap JPY			(1,040)	(1,024)	(68,215)	(68,015)	(52,210)	(5,660)	(32,859)	(79,042)	(30,822)	(30,716)	(185,146)	(184,000)
Cross Currency Swap USD					(64,432)	(3,866)	(157,929)	(216,820)					(222,361)	(220,000)
Cross Currency Swap CHF	(142,605)	(2,961)	(1,269)	(105,983)	(10,463)	(149,493)	(323,617)	(235,376)	(113,199)	(200,642)			(591,153)	(694,000)
Cross Currency Swap EUR					(1,028)	(1,019)	(2,058)	(2,025)	(2,064)	(2,030)	(41,066)	(40,905)	(46,216)	(45,000)
Net cash flows														





Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, *continued*

---

**10. Derivative Instruments and Accounting Hedges, continued:**

(c) Cash flow Hedges, continued:

Respect to CLF 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) Unrealized gain of fair value adjustment for the period 2016 was Ch\$6,395 million charge to equity (Ch\$3,556 million credit to equity as of June 30, 2015) generated from hedging instruments, which has been recorded in equity. The accumulated net effect for deferred taxes as of June 30, 2016 was a charge to equity of Ch\$4,860 million (Ch\$2,756 million credit to equity as of June 30, 2015).

The accumulated amount for this concept net of deferred taxes as of June 30, 2016 correspond to a credit to equity amounted Ch\$12,954 million (credit to equity of Ch\$17,814 million as of December 31, 2015).

(c.4) The net effect in income of derivatives cash flow hedges amount to Ch\$88,184 million charged to income in 2016 (Ch\$78,973 million credit to income as of June 30, 2015).

(c.5) As of June 30, 2016 and 2015, it not exist inefficiency in cash flow hedge, because both, hedge item and hedge instruments are mirror one of other, it means that all variation of value attributable to rate and revaluation components are netted totally.

(c.6) As of June 30, 2016 and 2015, the Bank has not hedges of net investments in foreign business.

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**11. Loans and advances to Banks:**

(a) Amounts are detailed as follows:

	June 2016 MCh\$	December 2015 MCh\$
<b>Domestic Banks</b>		
Interbank loans	140,000	20,000
Provisions for loans to domestic banks	16,815	25,258
Interbank loans of liquidity	(96)	(72)
Subtotal	156,719	45,186
<b>Foreign Banks</b>		
Interbank loans	121,937	211,573
Chilean exports trade loans	81,141	91,278
Credits with third countries	30,246	47,355
Provisions for loans to foreign banks	(439)	(630)
Subtotal	232,885	349,576
<b>Central Bank of Chile</b>		
Non-available Central Bank deposits	700,000	1,000,000
Other Central Bank credits	555	433
Subtotal	700,555	1,000,433
Total	1,090,159	1,395,195

(b) Provisions for loans to banks are detailed below:

Detail	Bank's Location		Total MCh\$
	Chile MCh\$	Abroad MCh\$	
Balance as of January 1, 2015	61	755	816
Charge-offs			
Provisions established	36	7	43
Provisions released			
Balance as of June 30, 2015	97	762	859
Charge-offs			
Provisions established			
Provisions released	(25)	(132)	(157)
Balance as of December 31, 2015	72	630	702
Charge-offs			
Provisions established	24		24

Edgar Filing: BANK OF CHILE - Form 6-K

Provisions released		(191)	(191)
Balance as of June 30, 2016	96	439	535

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**12. Loans to Customers, net:**

(a.i) Loans to Customers:

As of June 30, 2016 and December 31, 2015, the composition of the portfolio of loans is the following:

	As of June 30, 2016							Net assets MCh\$
	Normal Portfolio MCh\$	Assets before allowances Substandard Portfolio MCh\$	Non-Complying Portfolio MCh\$	Total MCh\$	Individual Provisions MCh\$	Group Provisions MCh\$	Total MCh\$	
<b>Commercial loans</b>								
Commercial loans	10,279,675	143,671	335,483	10,758,829	(146,476)	(81,340)	(227,816)	10,531,013
Foreign trade loans	1,252,680	57,454	48,985	1,359,119	(71,220)	(2,509)	(73,729)	1,285,390
Current account debtors	188,291	2,624	2,476	193,391	(3,500)	(4,121)	(7,621)	185,770
Factoring transactions	457,866	1,316	896	460,078	(7,972)	(1,571)	(9,543)	450,535
Student loans	42,304		897	43,201		(1,398)	(1,398)	41,803
Commercial lease transactions (1)	1,334,932	11,628	24,385	1,370,945	(7,352)	(10,454)	(17,806)	1,353,139
Other loans and accounts receivable	54,417	300	5,654	60,371	(1,479)	(3,492)	(4,971)	55,400
Subtotal	13,610,165	216,993	418,776	14,245,934	(237,999)	(104,885)	(342,884)	13,903,050
<b>Mortgage loans</b>								
Mortgage bonds	43,540		3,202	46,742		(59)	(59)	46,683
Transferable mortgage loans	74,266		2,272	76,538		(100)	(100)	76,438
Other residential real estate mortgage loans	6,387,248		117,128	6,504,376		(34,730)	(34,730)	6,469,646
Credits from ANAP	15			15				15
Residential lease transactions								
Other loans and accounts receivable	8,179		42	8,221		(91)	(91)	8,130
Subtotal	6,513,248		122,644	6,635,892		(34,980)	(34,980)	6,600,912

Edgar Filing: BANK OF CHILE - Form 6-K

**Consumer loans**

Consumer loans in installments	2,243,981		205,070	2,449,051		(180,734)	(180,734)	2,268,317
Current account debtors	301,153		2,930	304,083		(5,434)	(5,434)	298,649
Credit card debtors	1,041,885		20,443	1,062,328		(34,886)	(34,886)	1,027,442
Consumer lease transactions								
Other loans and accounts receivable	39		989	1,028		(374)	(374)	654
Subtotal	3,587,058		229,432	3,816,490		(221,428)	(221,428)	3,595,062
Total	23,710,471	216,993	770,852	24,698,316	(237,999)	(361,293)	(599,292)	24,099,024

(1) In this item, the Bank finances its customers purchases of assets, including real estate and other personal property, through finance lease agreements. As of June 30, 2016 Ch\$660,238 million correspond to finance leases for real estate and Ch\$710,707 million correspond to finance leases for other assets.

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

## 12. Loans to Customers net, continued:

(a.i) Loans to Customers, continued:

	As of December 31, 2015							Net assets MCh\$
	Normal Portfolio MCh\$	Assets before allowances Substandard Portfolio MCh\$	Non- Complying Portfolio MCh\$	Total MCh\$	Individual Provisions MCh\$	Group Provisions MCh\$	Total MCh\$	
<b>Commercial loans</b>								
Commercial loans	10,340,497	89,792	383,965	10,814,254	(154,115)	(83,521)	(237,636)	10,576,618
Foreign trade loans	1,318,078	64,849	60,318	1,443,245	(84,282)	(3,286)	(87,568)	1,355,677
Current account debtors	227,063	2,519	9,646	239,228	(5,728)	(4,082)	(9,810)	229,418
Factoring transactions	483,797	2,282	754	486,833	(10,571)	(1,773)	(12,344)	474,489
Commercial lease transactions (1)	1,334,038	15,367	25,651	1,375,056	(6,908)	(11,004)	(17,912)	1,357,144
Other loans and accounts receivable	50,898	257	7,147	58,302	(2,115)	(3,414)	(5,529)	52,773
Subtotal	13,754,371	175,066	487,481	14,416,918	(263,719)	(107,080)	(370,799)	14,046,119
<b>Mortgage loans</b>								
Mortgage bonds	49,849		3,771	53,620		(68)	(68)	53,552
Transferable mortgage loans	82,826		1,818	84,644		(95)	(95)	84,549
Other residential real estate mortgage loans	6,146,484		111,423	6,257,907		(34,760)	(34,760)	6,223,147
Credits from ANAP	17			17				17
Residential lease transactions								
Other loans and accounts receivable	8,644		154	8,798		(29)	(29)	8,769
Subtotal	6,287,820		117,166	6,404,986		(34,952)	(34,952)	6,370,034
<b>Consumer loans</b>								
Consumer loans in installments	2,188,881		233,217	2,422,098		(153,216)	(153,216)	2,268,882
Current account debtors	292,534		4,325	296,859		(7,476)	(7,476)	289,383

Edgar Filing: BANK OF CHILE - Form 6-K

Credit card debtors	991,831		24,518	1,016,349		(34,968)	(34,968)	981,381
Consumer lease transactions								
Other loans and accounts receivable	50		781	831		(355)	(355)	476
Subtotal	3,473,296		262,841	3,736,137		(196,015)	(196,015)	3,540,122
Total	23,515,487	175,066	867,488	24,558,041	(263,719)	(338,047)	(601,766)	23,956,275

(1) In this item, the Bank finances its customers purchases of assets, including real estate and other personal property, through finance lease agreements. As of December 31 2015 Ch\$653,225 million correspond to finance leases for real estate and Ch\$721,831 million correspond to finance leases for other assets.



Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

---

**12. Loans to Customers net, continued:**

Changes in volume of the portfolio in default are caused by the adoption of new regulations issued by the SBIF.

Until December 31, 2015, the Bank included, in the portfolio in default with evaluation group, all operations whose clients meet any of the following conditions:

- Greater than or equal to 90 days default, in any of their credits.
- Overdraft current account not agreed, for more than 30 days (For individuals without commercial activity declared).
- Customer in judicial collection.
- In order to change the category of default, 6 months of good internal behavior was required (less than 30 days default).

Due to new regulations (Circular No. 3,584 dated June 22, 2015) which amended the definition of portfolio in default evaluated in groups, from this year the Bank, under this concept, includes customers who meet the following:

The default portfolio includes all investments and 100% of the amount of contingent loans, from debtors that at the end of the month have a default of more than 90 days on interest payment or any credit capital. It will also include debtors granted with a credit to overrule an operation that had more than 60 days late on its payment, as also to those debtors who have undergone forced or partial restructuring debt forgiveness.

Once the circumstances that led to a debtor fall into the default portfolio classification, based on current standard, are amended, at least the following conditions must be met:

- No obligation of the debtor with the bank should have more than 30 calendar days overdue.
- No new refinancing has been given to pay its obligations.

- At least one of the payments includes capital amortization.
- If the debtor had some credit with partial payment within less than six months, it has already made two payments.
- If the debtor must pay monthly fees for one or more credits, four consecutive installments have been paid.
- The debtor does not appear to have unpaid direct debts in the information issued by SBIF, except for insignificant amounts.

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**12. Loans to Customers, net, continued:**

## (a.ii) Impaired Portfolio

As of June 30, 2016 and December 31, 2015, the Bank presents the following details of normal and impaired portfolio:

	Assets before Allowances						Allowances established						Total June 2016 MCh\$
	Normal Portfolio		Impaired Portfolio		Total		Individual Provisions		Group Provisions		Total		
	June 2016 MCh\$	December 2015 MCh\$	June 2016 MCh\$	December 2015 MCh\$	June 2016 MCh\$	December 2015 MCh\$	June 2016 MCh\$	December 2015 MCh\$	June 2016 MCh\$	December 2015 MCh\$	June 2016 MCh\$	December 2015 MCh\$	
Commercial loans	13,777,904	13,871,526	468,030	545,392	14,245,934	14,416,918	(237,999)	(263,719)	(104,885)	(107,080)	(342,884)	(370,799)	13,903,050
Mortgage loans	6,513,248	6,287,820	122,644	117,166	6,635,892	6,404,986			(34,980)	(34,952)	(34,980)	(34,952)	6,600,034
Consumer loans	3,587,058	3,473,296	229,432	262,841	3,816,490	3,736,137			(221,428)	(196,015)	(221,428)	(196,015)	3,595,000
<b>Total</b>	<b>23,878,210</b>	<b>23,632,642</b>	<b>820,106</b>	<b>925,399</b>	<b>24,698,316</b>	<b>24,558,041</b>	<b>(237,999)</b>	<b>(263,719)</b>	<b>(361,293)</b>	<b>(338,047)</b>	<b>(599,292)</b>	<b>(601,766)</b>	<b>24,099,085</b>

The variation in impaired portfolio between periods June 2016 and December 2015, is due to the change in definition of the non-complying portfolio established in Circular No. 3,584. The above is because the concepts of non-complying loans and impaired loans are equivalent for loans evaluated as a group.

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**12. Loans to Customers, continued:**

## (b) Allowances for loan losses:

Movements in allowances for loan losses during periods 2016 and 2015 are as follows:

	Individual MCh\$	Allowances Group MCh\$	Total MCh\$
Balance as of January 1, 2015	206,022	322,593	528,615
Charge-offs:			
Commercial loans	(8,596)	(21,348)	(29,944)
Mortgage loans		(1,360)	(1,360)
Consumer loans		(105,041)	(105,041)
Total charge-offs	(8,596)	(127,749)	(136,345)
Sales or transfers of credit	(271)		(271)
Allowances established	14,742	135,356	150,098
Balance as of June 30, 2015	211,897	330,200	542,097
Charge-offs:			
Commercial loans	(4,629)	(23,413)	(28,042)
Mortgage loans		(1,194)	(1,194)
Consumer loans		(90,974)	(90,974)
Total charge-offs	(4,629)	(115,581)	(120,210)
Sales or transfers of credit	(2,419)		(2,419)
Purchase of loans	12,329		12,329
Allowances established	46,541	123,428	169,969
Balance as of December 31, 2015	263,719	338,047	601,766
Charge-offs:			
Commercial loans	(6,709)	(22,851)	(29,560)
Mortgage loans		(1,756)	(1,756)
Consumer loans		(101,209)	(101,209)
Total charge-offs	(6,709)	(125,816)	(132,525)
Sales or transfers of credit	(5,285)		(5,285)
Allowances established		149,062	149,062
Allowances released	(13,726)		(13,726)
Balance as of June 30, 2016	237,999	361,293	599,292

In addition to these allowances for loan losses, the Bank also establishes a country risk provisions to hedge foreign transactions and additional provisions agreed upon by the Board of Directors, which are presented within liabilities in Provisions (Note No. 24).



Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**12. Loans to Customers, continued:****Other disclosures:**

1. As of June 30, 2016 and December 31, 2015, the Bank and its subsidiaries have made purchases and sales of loan portfolios. The effect in income is no more than 5% of net income before taxes, as described in Note 12 (d).

2. As of June 30, 2016 and December 31, 2015 the Bank and its subsidiaries have derecognized 100% of its sold loan portfolio and it has been transferred all or substantially all risks and benefits related to these financial assets. (See Note No. 12 letter (e)).

(c) Finance lease contracts:

The Bank's scheduled cash flows to be received from finance leasing contracts have the following maturities:

	Total receivable		Unearned income		Net lease receivable (*)	
	June 2016 MCh\$	December 2015 MCh\$	June 2016 MCh\$	December 2015 MCh\$	June 2016 MCh\$	December 2015 MCh\$
Due within one year	462,338	460,004	(54,995)	(54,353)	407,343	405,651
Due after 1 year but within 2 years	330,146	333,374	(40,591)	(39,913)	289,555	293,461
Due after 2 years but within 3 years	219,327	218,308	(27,389)	(27,287)	191,938	191,021
Due after 3 years but within 4 years	151,356	152,329	(19,122)	(19,090)	132,234	133,239
Due after 4 years but within 5 years	102,618	106,806	(13,784)	(13,652)	88,834	93,154
Due after 5 years	286,280	281,489	(32,122)	(30,492)	254,158	250,997
Total	1,552,065	1,552,310	(188,003)	(184,787)	1,364,062	1,367,523

(\*) The net balance receivable does not include past-due portfolio totaling Ch\$6,883 million as of June 30, 2016 (Ch\$7,533 million as of December 31, 2015).

The leasing contracts are related to industrial machinery, vehicles and computer equipment. The leasing contracts have an average life of between 3 and 8 years.

(d) Purchase of credits:

During the period ended June 30, 2016 the Bank acquired loan portfolio, whose nominal value amounted to Ch\$43,291 million. The transaction related to the purchase of portfolio made to a local bank (CorpBanca Bank).

During 2015 the Bank acquired loans portfolio whose nominal value amounted to Ch\$649,144 million. The major acquisition was the purchase of a local bank portfolio (Banco Penta).

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**12. Loans to Customers, continued:**

## (e) Sale or transfer of credits from the loans to customers:

During the period 2016 and 2015 Banco de Chile has carried out transactions of sale or transfer of the loan portfolio, according the following:

	Carrying amount MCh\$	As of June 30, 2016		Effect on income (loss) gain MCh\$
		Allowances MCh\$	Sale price MCh\$	
Sale of outstanding loans	81,661	(5,285)	78,743	2,367
Sale of write off loans				
<b>Total</b>	<b>81,661</b>	<b>(5,285)</b>	<b>78,743</b>	<b>2,367</b>

	Carrying amount MCh\$	As of June 30, 2015		Effect on income (loss) gain MCh\$
		Allowances MCh\$	Sale price MCh\$	
Sale of outstanding loans	310	(271)	310	271
Sale of write off loans				
<b>Total</b>	<b>310</b>	<b>(271)</b>	<b>310</b>	<b>271</b>

## (f) Securitization of own assets:

During the year 2015 and period as of June 30th 2016, there is no transactions of securitization of own assets.



Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**13, Investment Securities:**

As of June 30, 2016 and December 31, 2015, investment securities classified as available-for-sale and held-to-maturity are detailed as follows:

	Available- for-sale MCh\$	June 2016 Held to maturity MCh\$	Total MCh\$	Available- for -sale MCh\$	December 2015 Held to maturity MCh\$	Total MCh\$
<b>Instruments issued by the Chilean Government and Central Bank of Chile</b>						
Bonds issued by the Chilean Government and Central Bank	50,160		50,160	36,258		36,258
Promissory notes issued by the Chilean Government and Central Bank	20,996		20,996	50,250		50,250
Other instruments						
<b>Other instruments issued in Chile</b>						
Deposit promissory notes from domestic banks						
Mortgage bonds from domestic banks	114,202		114,202	87,610		87,610
Bonds from domestic banks	7,929		7,929	83,960		83,960
Deposits from domestic banks	133,103		133,103	450,976		450,976
Bonds from other Chilean companies	6,621		6,621	17,766		17,766
Promissory notes issued by other Chilean companies						
Other instruments	187,623		187,623	191,537		191,537
<b>Instruments issued abroad</b>						
Instruments from foreign governments or Central Banks						
Other instruments	62,656		62,656	81,644		81,644
<b>Total</b>	<b>583,290</b>		<b>583,290</b>	<b>1,000,001</b>		<b>1,000,001</b>

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**13. Investment Securities, continued:**

Instruments issued by the Chilean Government and Central Bank include instruments with repurchase agreements sold to clients and financial institutions; totaling Ch\$3,054 million as of December 31, 2015 (no instruments sold as of June 30, 2016). The repurchase agreements have an average maturity of 6 days as of December 31, 2015.

In instruments issued abroad are included mainly bank bonds and shares and equity investments instruments.

As of June 30, 2016, the portfolio of financial assets available-for-sale includes a net unrealized gain of Ch\$2,682 million, net of tax (net unrealized gain of Ch\$39,836 million as of December 31, 2015), recorded in other comprehensive income within equity.

During 2016 and 2015, there is no evidence of impairment of financial assets available-for-sale.

Realized gains and losses are calculated as the proceeds from sales less the cost (specific identification method) of the investments identified as available-for-sale. In addition, any unrealized gain or loss previously recognized in equity for these investments is reversed and recorded in the Consolidated Statements of Comprehensive Income.

Gross profits and losses realized on the sale of available-for-sale investments as of June 30, 2016 and 2015 are shown in Note 30 Net Financial Operating Income .

Gross profits and losses realized and unrealized on the sale of available-for-sale investments for the six-month period ended as of June 30, 2016 and 2015 are as follows:

	<b>June 2016 MCh\$</b>	<b>June 2015 MCh\$</b>
Unrealized (losses)/gains during the period	4,023	15,911
Realized losses/gains (reclassified)	(59,969)	(9,208)
Subtotal	(55,946)	6,703

Edgar Filing: BANK OF CHILE - Form 6-K

Income tax	13,428	(1,454)
Total unrealized (losses)/gains during the period	(42,518)	5,249

Table of Contents

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

**14. Investments in Other Companies:**

(a) This item includes investments in other companies for an amount of Ch\$29,352 million as of June 30, 2016 (Ch\$28,126 million as of December 31, 2015), which is detailed as follows:

Company	Shareholder	Ownership Interest		Equity		Book Value		Investment		Income (Loss)	
		June 2016 %	December 2015 %	June 2016 MCh\$	December 2015 MCh\$	June 2016 MCh\$	December 2015 MCh\$	June 2016 MCh\$	December 2015 MCh\$	June 2016 MCh\$	December 2015 MCh\$
<b>Associates</b>											
Transbank S.A.	Banco de Chile	26.16	26.16	43,366	40,302	10,989	10,542	351	752		
Administrador Financiero del Transantiago S.A.	Banco de Chile	20.00	20.00	13,340	12,758	2,668	2,552	117	137		
Soc. Operadora de Tarjetas de Crédito Nexus S.A.	Banco de Chile	25.81	25.81								